

HEADS OF INCOME



UNIT – 1 : SALARIES

LEARNING OUTCOMES

After studying this unit, you would be able to -

- ◆ **ascertain** the point of time when salary income is chargeable to tax;
- ◆ **comprehend** the meaning of salary, profits in lieu of salary, allowances, perquisite and various retirement benefits;
- ◆ **identify** the allowances which are exempt and perquisites which are tax free under default tax regime under section 202(1) and under the optional tax regime (i.e., the normal provisions of the Act);
- ◆ **determine** the taxable portion of retirement benefits, allowances and other benefits which form part of salary;
- ◆ **determine** the value of perquisite chargeable to tax under the head "Salaries";
- ◆ **identify** the admissible deductions from salary under the default tax regime under section 202(1);
- ◆ **identify** the admissible deductions from salary under the optional tax regime (i.e., the normal provisions of the Act)
- ◆ **compute** the income chargeable to tax under the head "Salaries" under both the default tax regime and the optional tax regime.

Proforma for computation of income under the head “Salaries” as per default tax regime under section 202(1)

	Particulars	Amt (₹)
(i)	Basic Salary	xxx
(ii)	Fees/Commission	xxx
(iii)	Bonus	xxx
(iv)	Allowances:	
(a)	Dearness Allowance [Fully taxable]	xxx
(b)	House Rent Allowance (HRA) [Fully taxable]	xxx
(c)	Children Education Allowance [Fully taxable]	xxx
(d)	Children Hostel Allowance [Fully taxable]	xxx
(e)	Transport allowance	xxx
	Less: ₹ 15,000 plus DA thereon per month in case of metro cities and Rs 8000 plus DA thereon per month in case of other cities only in case of blind/ deaf and dumb/ orthopedically handicapped employee	xxx
		xxx
(f)	Entertainment Allowance [Fully taxable]	xxx
(g)	Travelling Allowance/ Transfer Allowance/ Daily Allowance/ Conveyance Allowance	xxx
	Less: Exempt if the amount is fully utilised for the purpose	xxx
		xxx
(h)	Other Allowances including overtime allowance, city compensatory allowance etc. [Fully taxable]	xxx
(v)	Annual accretion to the balance to the credit of an employee participating in a RPF comprising of interest credited at a rate exceeding 9.5% p.a.	xxx
(vi)	Contribution made by the Central Government or any other employer to the NPS account of employee	xxx

(vii)	Taxable Perquisites (a) Value of rent-free accommodation provided to the employee¹/ Value of any accommodation provided to the employee at a concessional rate¹ I) Where the accommodation is provided by the Govt. to its employees License fee determined by the Govt. xxx Less: Rent actually paid by the employer xxx II) Where the accommodation is provided by any other employer <u>If accommodation is owned by the employer</u> (i) Cities having population > 40 lakh as per 2011 census 10% of salary in respect of the period of occupation (–) rent actually paid by the employee xxx (ii) Cities having population > 15 lakh ≤ 40 lakh as per 2011 census 7.5% of salary in respect of the period of occupation (–) rent actually paid by the employee xxx (iii) In other cities 5% of salary in respect of the period of occupation (–) rent actually paid by the employee xxx <u>If accommodation is taken on lease/ rent by the employer</u> Lower of lease rental paid or payable by the employer (or) 10% of salary in respect of the period of occupation xxx Less: Rent actually paid by the employee xxx (b) Obligation of employee discharged by employer: xxx For e.g., Professional tax paid by the employer	
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¹In case of furnished accommodation, the value will be increased by 10% p.a. of the cost of furniture or hire charges, as the case may be, **less** amount recovered from the employee.

(c)	Any sum payable by the employer to effect an assurance on the life of the employee or to effect a contract for annuity: Actual expenditure incurred by the employer	xxx
(d)	Amount or aggregate of amounts of any contribution made - in a recognised provident fund, - in NPS referred to in section 124(1) - in an approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 in a tax year	xxx
(e)	Annual accretion by way of interest, dividend or any other amount of similar nature during the tax year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any tax year under section 17(1)(i)	xxx
(f)	Value of use of motor car [Refer Table below]	xxx
(g)	Any other perquisite: For example, (1) Provision of services of a sweeper, gardener, watchman or personal attendant: Actual cost to employer by way of salary paid or payable for such services (-) amount paid by the employee (2) Gas, electricity, or water supplied by employer for household consumption of the employee: Amount paid on that account by the employer to the agency supplying gas etc. (-) amount paid by the employee <i>Note: Where it is provided to the employee from the resources owned by the employer without purchasing them from any outside agency, the value of perquisite would be the manufacturing cost incurred by the employer (-) amount paid by the employee.</i> (3) Provision of free or concessional education facilities for any member of employee's household: Sum equal to the expenditure incurred by the employer (-) amount paid or recovered from the employee	xxx

	Where educational institution is maintained and owned by employer: Cost of such education in similar institution in or near the locality (-) amount paid or recovered from employee [However, there would be no perquisite if the value of benefit per child does not exceed ₹ 3,000 p.m.] Note: Above perquisites in (f) and (g) are taxable only in case of specified employees, being a director of a company or who hold not less than 20% of the voting power in the company or an employee whose income under the head "Salaries" by way of monetary payment exceed ₹ 4 lakhs. (4) Interest-free or concessional loan exceeding ₹ 2,00,000: Interest computed at the rate charged by SBI as on 1st day of relevant tax year in respect of loans for similar purposes on the maximum outstanding monthly balance (-) interest actually paid by employee (5) Free food and non-alcoholic beverages through paid vouchers: Expenses incurred by employer (-) amount recovered from employee [Free food and non-alcoholic beverages provided during office hours or through paid vouchers upto ₹ 200 per meal is exempt] (6) Value of gift, voucher: Sum equal to the amount of such gift [If value of gift, voucher is below ₹ 15,000, there would be no perquisite] (7) Use of moveable assets (8) Transfer of moveable assets: Actual cost of asset to employer – cost of normal wear and tear – Amount paid or recovered from employee	
(viii)	Leave travel concession [Fully Taxable]	xxx
(ix)	Gratuity	
	(a) Received during the tenure of employment (fully taxable)	xxx

	(b) Received at the time of retirement or otherwise (Deduction is available u/s 19(1) from gross salary)	xxx	xxx
(x)	Pension		
	Uncommuted pension [fully taxable]	xxx	
	Commuted pension (Deduction is available u/s 19(1) from gross salary)	xxx	xxx
(xi)	Retrenchment Compensation (Deduction is available u/s 19(1) from gross salary)		xxx
(xii)	Voluntary Retirement Compensation (Deduction is available u/s 19(1) from gross salary)		xxx
(xiii)	Leave Encashment		
	(a) Received during the employment [fully taxable]	xxx	
	(b) Received at the time of retirement or otherwise (Deduction is available u/s 19(1) from gross salary)	xxx	xxx
Gross Salary			xxx
Less:	Deductions under section 19(1)		
	- Standard deduction - Amount of salary or ₹ 75,000, whichever is less.	xxx	
	- Gratuity, if received at the time of retirement or otherwise	xxx	
	- Commuted Pension	xxx	
	- Retrenchment Compensation: Deduction would be least of the following	xxx	
	(a) Compensation actually received	xxx	
	(b) ₹ 5,00,000	xxx	
	(c) 15 days average pay x completed years of service and part thereof in excess of 6 months	xxx	
	- Voluntary Retirement Compensation: Deduction would be least of the following	xxx	
	(a) Compensation received/receivable on voluntary retirement	xxx	
	(b) ₹ 5,00,000	xxx	

	(c) 3 months' salary x completed years of service	xxx		
	(d) Last drawn salary x remaining months of service left	xxx		
-	Leave Encashment		xxx	xxx
Income under the head "Salaries"				xxx

Proforma for computation of income under the head "Salaries" under the optional tax regime (i.e., the normal provisions of the Act)

	Particulars	Amt (₹)
(i)	Basic Salary	xxx
(ii)	Fees/Commission	xxx
(iii)	Bonus	xxx
(iv)	Allowances:	
(a)	Dearness Allowance [Fully taxable]	xxx
(b)	House Rent Allowance (HRA)	xxx
	Less: Least of the following is exempt [Schedule III (Table SI No. 11)]	xxx
	(i) HRA actually received	xxx
	(ii) Rent paid (-)10% of salary for the relevant period	xxx
	(iii) 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Bengaluru or Ahmedabad or 40% of salary in any other city for the relevant period	xxx
(c)	Children Education Allowance	xxx
	Less: Exempt upto ₹ 3,000 per month per child upto maximum of two children	xxx
(d)	Children Hostel Allowance	xxx

		Less: Exempt upto ₹ 9,000 per month per child upto maximum of two children	xxx	xxx
	(e)	Transport allowance	xxx	
		Less: ₹ 15,000 plus DA thereon per month in case of metro cities, ₹ 8,000 plus DA thereon per month in case of other cities only in case of blind/ deaf and dumb/ orthopedically handicapped employee	xxx	xxx
	(f)	Entertainment Allowance [Fully Taxable]		xxx
	(g)	Travelling Allowance/ Transfer Allowance/ Daily Allowance/ Conveyance Allowance / Helper Allowance/ Research allowance/ Uniform Allowance	xxx	
		Less: Exempt if the amount is fully utilised for the purpose	xxx	xxx
	(h)	Allowances such as compensatory field area allowance, compensatory modified field area allowance, any special allowance in the nature of high altitude	xxx	
		Less: Exempt to extent of prescribed limit	xxx	xxx
	(i)	Other Allowances including overtime allowance, city compensatory allowance etc.		xxx
(v)		Annual accretion to the balance to the credit of an employee participating in a RPF comprising of interest credited at a rate exceeding 9.5% p.a.		xxx
(vi)		Contribution made by the Central Government or any other employer to the NPS account of employee		xxx
(vii)		Taxable Perquisites		
	(a)	Value of rent-free accommodation provided to the employee²/ Value of any accommodation provided to the employee at a concessional rate²		xxx

²In case of furnished accommodation, the value will be increased by 10% p.a. of the cost of furniture or hire charges, as the case may be, **less** amount recovered from the employee.

	I) Where the accommodation is provided by the Govt. to its employees License fee determined by the Govt. xxx Less: Rent actually paid by the employer xxx II) Where the accommodation is provided by any other employer <u>If accommodation is owned by the employer</u> (i) Cities having population > 40 lakh as per 2011 census 10% of salary in respect of the period of occupation (–) rent actually paid by the employee xxx (ii) Cities having population > 15 lakh ≤ 40 lakh as per 2011 census 7.5% of salary in respect of the period of occupation (–) rent actually paid by the employee xxx (iii) In other cities 5% of salary in respect of the period of occupation (–) rent actually paid by the employee xxx <u>If accommodation is taken on lease/rent by the employer</u> Lower of lease rental paid or payable by the employer (or) 10% of salary in respect of the period of occupation xxx Less: Rent recovered from the employee xxx	
(b)	Obligation of employee discharged by employer: For e.g., Professional tax paid by the employer	xxx
(c)	Any sum payable by the employer to effect an assurance on the life of the employee or to effect a contract for annuity: Actual expenditure incurred by the employer	xxx
(d)	Amount or aggregate of amounts of any contribution made – - in a recognised provident fund,	xxx

	- in NPS referred to in section 124(1) - in an approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 in a tax year	
(e)	Annual accretion by way of interest, dividend or any other amount of similar nature during the tax year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any tax year under section 17(1)(i)	XXX
(f)	Value of use of motor car [Refer Table below]	XXX
(g)	Any other perquisite: For example, (1) Provision of services of a sweeper, gardener, watchman or personal attendant: Actual cost to employer by way of salary paid or payable for such services (-) amount paid by the employee (2) Gas, electricity, or water supplied by employer for household consumption of the employee: Amount paid on that account by the employer to the agency supplying gas etc. (-) amount paid by the employee Note: Where it is provided to the employee from the resources owned by the employer without purchasing them from any outside agency, the value of perquisite would be the manufacturing cost incurred by the employer (-) amount paid by the employee. (3) Provision of free or concessional education facilities for any member of employee's household: Sum equal to the expenditure incurred by the employer (-) amount paid or recovered from the employee Where educational institution is maintained and owned by employer: Cost of such education in similar institution in or near the locality (-) amount paid or recovered from employee [However, there would be no perquisite if the value of benefit per child does not exceed ₹ 3,000 p.m.]	XXX

	Note: Above perquisites in (f) and (g) are taxable only in case of specified employees, being a director of a company or who hold not less than 20% of the voting power in the company or an employee whose income under the head "Salaries" by way of monetary payment exceed ₹ 4 lakhs. (4) Interest-free or concessional loan exceeding ₹ 2,00,000: Interest computed at the rate charged by SBI as on 1st day of relevant tax year in respect of loans for similar purposes on the maximum outstanding monthly balance (-) interest actually paid by employee (5) Free food and non-alcoholic beverages: Expenses incurred by employer (-) amount recovered from employee [Free food and non-alcoholic beverages provided during office hours or paid vouchers upto ₹ 200 per meal is exempt] (6) Value of gift, voucher: Sum equal to the amount of such gift [If value of gift, voucher is below ₹ 15,000, there would be no perquisite] (7) Use of moveable assets (8) Transfer of moveable assets: Actual cost of asset to employer – cost of normal wear and tear – Amount paid or recovered from employee		
(viii)	Leave travel concession	xxx	xxx
	Less: Exempt under Schedule III (Table SI No. 8)	xxx	
(ix)	Gratuity		xxx
	(a) Received during the tenure of employment (fully taxable)	xxx	
	(b) Received at the time of retirement or otherwise (Deduction is available u/s 19(1) from gross salary)	xxx	
(x)	Pension		
	Uncommuted pension [fully taxable]	xxx	

	Commuted pension (Deduction is available u/s 19(1) from gross salary)	xxx	
(xi)	Retrenchment Compensation (Deduction is available u/s 19(1) from gross salary)		xxx
(xii)	Voluntary Retirement Compensation (Deduction is available u/s 19(1) from gross salary)		xxx
(xiii)	Leave Encashment		
	(a) Received during the employment [fully taxable]	xxx	
	(b) Received at the time of retirement or otherwise (Deduction is available u/s 19(1) from gross salary)	xxx	
Gross Salary			xxx
Less:	Deduction under section 19(1)		
	- Professional Tax/Tax on employment paid by employee	xxx	
	- Standard deduction - Amount of salary or ₹ 50,000, whichever is less.	xxx	
	- Gratuity, if received at the time of retirement or otherwise	xxx	
	- Commuted Pension	xxx	
	- Retrenchment Compensation: Deduction would be least of the following		
	(a) Compensation actually received	xxx	
	(b) ₹ 5,00,000	xxx	
	(c) 15 days average pay x completed years of service and part thereof in excess of 6 months	xxx	
	- Voluntary Retirement Compensation: Deduction would be least of the following	xxx	
	(a) Compensation received / receivable on voluntary retirement	xxx	
	(b) ₹ 5,00,000	xxx	

(c) 3 months' salary x completed years of service	xxx		
(d) Last drawn salary x remaining months of service left	xxx		
- Leave Encashment		xxx	xxx
Income under the head "Salaries"			xxx

Proforma for computation of income under the head "Salaries" under optional tax regime taking Salaries computed as per default tax regime under section 202(1) as the starting point

Particulars	Amt (₹)
Income under the head "Salaries" under default tax regime under section 202(1)	xxx
Add: Deduction under section 19(1)	
Standard Deduction - Difference between standard deduction claimed under default tax regime i.e., lower of gross salary or ₹ 75,000 and standard deduction available under optional tax regime i.e., lower of gross salary ₹ 50,000	xxx
Less: Professional Tax/Tax on employment paid by employee	xxx
Less: HRA exempt under schedule III (Table SI No. 11) – i.e., Least of the three limits stated above	xxx
Children Education Allowance (Upto ₹ 3,000 per month per child upto maximum of two children)	xxx
Children Hostel Allowance (Upto ₹ 9,000 per month per child upto maximum of two children)	xxx
Less: Exemption allowed in respect of Helper Allowance/ Research Allowance / Uniform Allowance, if the amount is fully utilised for the purpose	xxx
Less: Exemption allowed in respect of certain allowances such as compensatory field area allowance, compensatory modified field area allowance, any special allowance in the nature of high altitude to the extent of prescribed limit	xxx
Less: Leave travel concession exempt as per Schedule III (Table SI No. 8)	xxx
Income under the head "Salaries" under optional tax regime	xxx

PERQUISITE VALUE OF MOTOR CAR											
S. No.	Car owned/ hired by	Expenses met by	Wholly official use	Partly personal use							
1	Employer	Employer	No value*	<table><tr><th>cc of engine</th><th>Perquisite value</th></tr><tr><td>upto 1.6 litres or Electric vehicle</td><td>₹ 5,000 p.m.</td></tr><tr><td>above 1.6 litres</td><td>₹ 7,000 p.m.</td></tr></table>		cc of engine	Perquisite value	upto 1.6 litres or Electric vehicle	₹ 5,000 p.m.	above 1.6 litres	₹ 7,000 p.m.
				cc of engine	Perquisite value						
				upto 1.6 litres or Electric vehicle	₹ 5,000 p.m.						
				above 1.6 litres	₹ 7,000 p.m.						
If chauffeur is also provided, ₹ 3000 p.m. should be added to the above value.											
2	Employee	Employer	No value*	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.							
3	Employer	Employee	-	<table><tr><th>cc of engine</th><th>Perquisite value</th></tr><tr><td>upto 1.6 litres or electric vehicle</td><td>₹ 2,000 p.m.</td></tr><tr><td>above 1.6 litres</td><td>₹ 3,000 p.m.</td></tr></table>		cc of engine	Perquisite value	upto 1.6 litres or electric vehicle	₹ 2,000 p.m.	above 1.6 litres	₹ 3,000 p.m.
				cc of engine	Perquisite value						
				upto 1.6 litres or electric vehicle	₹ 2,000 p.m.						
				above 1.6 litres	₹ 3,000 p.m.						
If chauffeur is also provided, ₹ 3,000 p.m. should be added to the above value.											

*provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure are incurred wholly for official use.

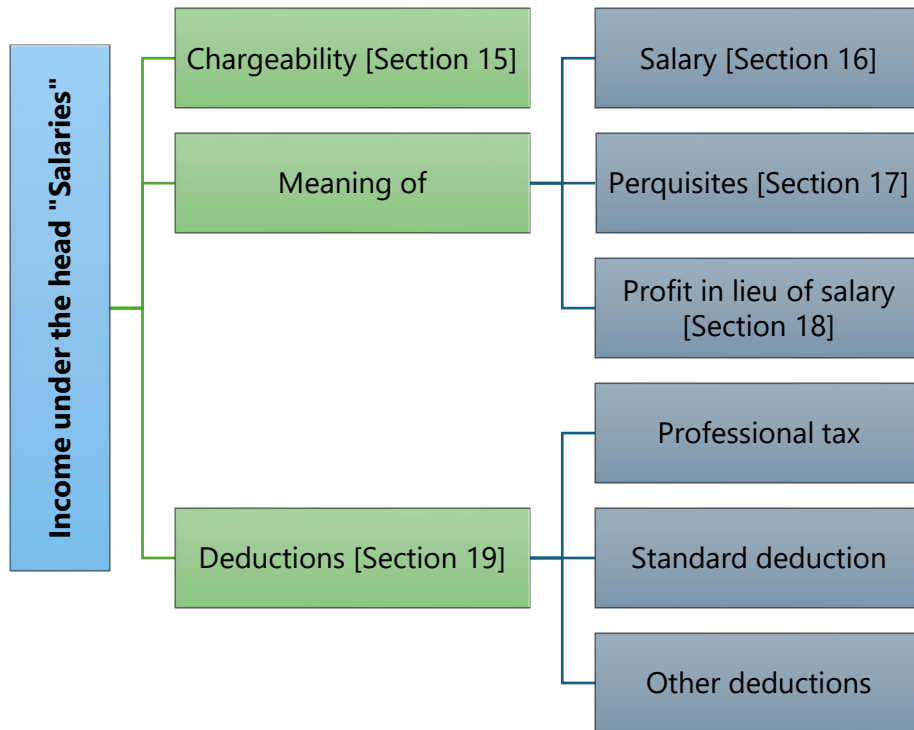


Perquisite value of motor car is taxable only in case of specified employees if motor car is provided by the employer to the employee. However, where the motor car is owned by the employee and used by him or members of his family wholly for personal purpose and for which employer reimburses the running and maintenance expenses of the car, the perquisite value of motor car would be taxable in case of all employees.

Where car is owned by employer and expenses are also met by the employer, the taxable perquisite in case such car is used wholly for personal purposes of the employee would be equal to the actual expenditure incurred by the employer on running and maintenance expenses and normal wear and tear (calculated @10% p.a. of actual cost of motor car) less amount charged from the employee for such use.

1.1 INTRODUCTION

The provisions pertaining to Income under the head "Salaries" are contained in section 15, 16, 17, 18 and 19 in the following manner.



Before learning the provisions, it is essential to understand the important concepts relating to Salaries.

- (1) Employer-employee relationship:** Every payment made by an employer to his employee for service rendered would be chargeable to tax as salaries. Before an income can become chargeable under the head 'salaries', it is vital that there should exist between the payer and the payee, the relationship of an employer and an employee.



Sujata, an actress, is employed in Chopra Films, where she is paid a monthly remuneration of ₹ 2 lakhs. She acts in various films produced by various producers. The remuneration for acting in such films is directly paid to Chopra Films by the different producers.

In this case, ₹ 2 lakhs will constitute salary in the hands of Sujata, since the relationship of employer and employee exists between Chopra Films and Sujata.

In the above example, if Sujata acts in various films and gets fees from different producers, the same income will be chargeable as income from profession since the relationship of employer and employee does not exist between Sujata and the film producers.

EXAMPLE

EXAMPLE

Commission received by a director from a company is salary if the Director is an employee of the company. If, however, the Director is not an employee of the company, the said commission cannot be charged as salary but has to be charged either as income from business or as income from other sources depending upon the facts.

Salary paid to a partner by a firm is nothing but an appropriation of profits. Any salary, bonus, commission or remuneration by whatever name called due to or received by partner of a firm shall not be regarded as salary. The same is to be charged as income from profits and gains of business or profession. This is primarily because the relationship between the firm and its partners is not that of an employer and employee.

EXAMPLE

EXAMPLE

Remuneration received by a Member of Parliament/State Legislature is not taxable under the head 'Salaries' as such person is not a government employee. Such income would be taxable as 'Income from Other Sources'.

- (2) **Full-time or part-time employment:** Once the relationship of employer and employee exists, the income is to be charged under the head "salaries". It does not matter whether the employee is a full-time employee or a part-time one.

For example, if an employee works with more than one employer, salaries received from all the employers should be clubbed and brought to charge for the relevant tax years.

- (3) **Forgoing of salary:** Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable to tax.

EXAMPLE

Mr. A, an employee instructs his employer that he is not interested in receiving the salary for April 2026 and the same might be donated to a charitable institution, being a registered non-profit organisation.

In this case, Mr. A cannot claim that he cannot be charged in respect of the salary for April 2026. It is only due to his instruction that the donation was made to a charitable institution by his employer. It is only an application of income.

Hence, the salary for the month of April 2026 will be taxable in the hands of Mr. A. He is, however, entitled to claim a deduction under section 133 for the amount donated to the institution. Deduction under section 133 is available only if Mr. A exercises the option under section 202(4) of shifting out of the default tax regime. [The concept of deductions is explained in detail in Chapter 6].

- (4) **Surrender of salary:** If an employee surrenders his salary, in the public interest, to the Central Government under section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be exempt while computing his taxable income.
- (5) **Salary paid tax-free:** This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.

However, as per Schedule III (Table SI No. 10), the income-tax paid by the employer on non-monetary perquisites on behalf of the employee would be **exempt in the hands of the employee.**

- (6) **Place of accrual of salary:** Under section 9(3), salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

If an employee is paid pension abroad in respect of services rendered in India, the same will be deemed to accrue in India. Similarly, leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India.

Section 9(3)(b) provides that salaries payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India. However, by virtue of Schedule III (Table SI. No. 9), any allowance or perquisites paid or allowed outside India by the Government to **a citizen of India** for rendering services outside India will be fully exempt.

Exemptions in respect of remuneration/ salary to non-Indian citizen

Individual assessee **who are not citizens of India** are entitled to the following exemptions in respect of remuneration/ salary received by them under section 11, read with Schedule IV:

- (i) **Remuneration received by officials of Embassies etc. of Foreign States [Schedule IV (Table SI No. 2)]:** The remuneration received by a person (not being an Indian citizen) for services as an official of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials is exempt.

Conditions:

- (a) The remuneration received as a trade commissioner or other official representative in India of the government of a foreign State or as members of staff of the government, resident for similar purposes in the country concerned enjoy similar exemption in that country; and
- (b) The above-mentioned members of the staff should be the subjects of the respective countries represented and should not be engaged in any other business or profession or employment in India.

- (ii) **Remuneration received for services rendered in India as an employee of foreign enterprise [Schedule IV (Table SI No. 3)]**

Remuneration received by a foreign national as an employee of a foreign enterprise for service rendered by him during his stay in India is also exempt from tax.

Conditions:

- (a) The foreign enterprise **is not engaged in any business or trade in India;**
- (b) The employee's stay in India **does not exceed in the aggregate a period of 90 days in the tax year;**

- (c) The remuneration **is not liable to be deducted** from the employer's income chargeable to tax under the Act.

(iii) Salary received by a non-citizen non-resident for services rendered in connection with employment on foreign ship [Schedule IV (Table SI No. 4)]

Salary income received by or due to a non-citizen of India who is also non-resident for services rendered in connection with his employment on a foreign ship is exempt where his total **stay** in India **does not exceed** in the aggregate a period of **90 days in the tax year**.

(iv) Remuneration received by Foreign Government employees during their stay in India for specified training [Schedule IV (Table SI No. 5)]

Any remuneration received by employee (not being an Indian citizen) of foreign Government from his respective Government during his stay in India, is exempt from tax, if such remuneration is received in connection with his training in any establishment or office of or in any undertaking owned by –

- (a) the Government; or
- (b) any company wholly owned by the Central or any State Government(s) or jointly by the Central and one or more State Governments; or
- (c) any company which is subsidiary of a company referred to in (b) above; or
- (d) any statutory corporation; or
- (e) any society registered under the Societies Registration Act, 1860 or any other similar law, which is wholly financed by the Central Government or any State Government(s) or jointly by the Central and one or more State Governments.



Exemption under Schedule III (Table SI No. 9) and Schedule IV (as mentioned above) would be available to an assessee irrespective of the regime under which he pays tax.

Now, let us discuss the chargeability (u/s 15), the provisions explaining the meaning of Salary (u/s 16), Perquisite (u/s 17) and Profits in lieu of salary (u/s 18) and the deductions (u/s 19).

	
1.	Remuneration received by a Member of Parliament shall be taxable under the head –
(a)	Salaries
(b)	Capital Gains
(c)	Income from Other Sources
(d)	Profits and Gains of Business or Profession
2.	Ms. Anna, a foreign national employed by a foreign enterprise not engaged in business in India, stayed in India for 88 days during the tax year. Her salary was not claimed as deduction by the employer in India. The remuneration received by her shall be –
(a)	Fully taxable
(b)	Exempt under Schedule IV
(c)	Taxable only to the extent received in India
(d)	Exempt only if she is a non-resident



1.2 BASIS OF CHARGE [SECTION 15]

- (i) Section 15 deals with the basis of charge under the head "Salaries". Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.
- (ii) However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.
- (iii) If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.
- (iv) Employer includes former employer as well.

- (v) Any salary, bonus, commission or remuneration, due to or received by a **partner of a firm from the firm shall not be regarded as salary** for the purposes of this section.

EXAMPLE

*If A draws his salary in advance for the month of April 2027 in the month of March 2027 itself, the same becomes chargeable on **receipt basis** and is to be assessed as income of the tax year 2026-27. However, the salary for the tax year 2027-28 will not include that of April 2027.*

*If the salary due for March 2027 is received by A later in the month of April 2027, it is still chargeable as income of the tax year 2026-27 on **due basis**. Obviously, salary for the tax year 2027-28 will not include that of March 2027.*

EXAMPLE**Advance Salary**

Advance salary is taxable when it is received by the employee irrespective of the fact whether it is due or not. The rule behind this is the basis of taxability of salary i.e., salary is taxed on due or receipt basis, whichever is earlier.

It may so happen that when advance salary is included and charged in a particular tax year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed. Section 157 provides relief in these types of cases. The concept of relief under section 157 is explained in this unit later on.

Difference between advance salary and advance against salary

Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified instalments, the loan amount cannot be brought to tax as salary of the employee.

Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted with his salary over a specified time period. It cannot be taxed as salary.

Arrears of Salary

Normally speaking, salary arrears must be charged on due basis. However, there are circumstances when it may not be possible to bring the same to charge on due basis.

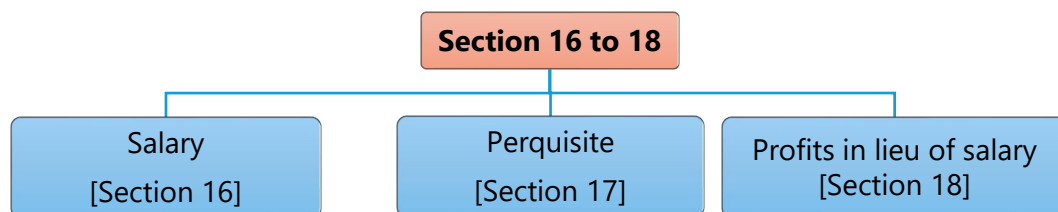


(1) If the Pay Commission is appointed by the Central Government and it recommends revision of salaries of employees with retrospective date, the arrears received in that connection will be charged on receipt basis. Here also, relief under section 157 is available.

(2) If the Central Government announces an increase in HRA in the tax year 2026-27 which is effective from 1.1.2024, then the arrears from 1.1.2024 to 31.3.2026 will be taxed in the tax year in which they are paid because they were never due earlier. Here also, relief under section 157 is available.



1.3 SALARY, PERQUISITE AND PROFITS IN LIEU OF SALARY [SECTION 16, 17 AND 18]



1.3.1 Meaning of Salary

The meaning of the term 'salary' for purposes of income-tax is much wider than what is normally understood. The term 'salary' for the purposes of Income-tax Act, 2025 will include both monetary payments (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary facilities (e.g. housing accommodation, medical facility, interest free loans etc.).

Section 16 defines the term "Salary". It is an inclusive definition and includes monetary as well as non-monetary items.

'Salary' under section 16, includes the following:

- | | |
|-----|---|
| (1) | Wages, |
| (2) | Any annuity or pension, |
| (3) | Any gratuity, |
| (4) | Any fees or commission |
| (5) | Perquisites |
| (6) | Profits in lieu of or in addition to any salary or wages, |

(7)	Any advance of salary,
(8)	Any payment received in respect of any period of leave not availed by him i.e., leave salary or leave encashment,
(9)	Annual accretion to the balance at the credit of an employee participating in a recognised provident fund to the extent it is taxable as per paragraph 6 of Part A of Schedule XI.
(10)	Aggregate of all sums that are comprised in the transferred balance as referred in paragraph 11(2) of Part A of Schedule XI of an employee participating in the recognized provident fund to the extent it is taxable under sub-paragraphs (4) and (5) thereof.
(11)	Contribution made by the Central Government or any other employer in any tax year to the account of an employee under a pension scheme referred to in section 124.
(12)	Contribution made by the Central Government in any tax year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 125.

Wages

In common parlance, the term "wages" means fixed regular payment earned for work or services. The words "wages", "salary", "basic salary" are used interchangeably. Moreover, the payments in the form of Bonus, Allowances etc. made to the employee are also included within the meaning of salary. Under the Income-tax Act, there are certain payments made which are fully taxable, partly taxable and fully exempt.



For example, wages, salary, bonus, dearness allowance etc. are fully taxable payments, whereas monetary benefits in the form of allowances such as House Rent Allowance, conveyance allowance etc. are partially taxable.

Allowances

Allowances are monetary payments made by the employer to the employees for meeting specific expenditure, whether personal or for the performance of duties. These allowances are generally taxable unless some specific exemption has been provided in respect of such allowance. Various types of allowances normally in vogue are discussed below:

Allowances which are fully taxable under both Regimes

The allowances listed in the table below are taxable under both default tax regime as well as under optional tax regime.

Sl. No.	Nature of Allowance
(i)	Entertainment Allowance
(ii)	Dearness Allowance
(iii)	Overtime Allowance
(iv)	Fixed Medical Allowance
(v)	City Compensatory Allowance
(vi)	Interim Allowance
(vii)	Servant Allowance
(viii)	Project Allowance
(ix)	Tiffin/Lunch/Dinner Allowance
(x)	Warden Allowance
(xi)	Non-practicing Allowance
(xii)	Transport allowance to employee other than blind/ deaf and dumb/ orthopedically handicapped employee
(xiii)	Any other cash allowance

Allowances which are fully exempt only under the optional tax regime

Sl. No.	Nature of Allowance
(i)	Allowances to High Court Judges: Any allowance paid to a Judge of a High Court and Supreme Court under section 22A(2) of the High Court Judges (Conditions of Service) Act, 1954 and section 23(1A) of the Supreme Court Judges (Salaries and Conditions of services) Act, 1958, respectively, is not taxable under the optional tax regime (i.e., normal provisions of the Act).
(ii)	Salary and Allowances paid by the United Nations Organization: Salary and emoluments paid by the UNO to its employees is not taxable by virtue of section 18 of the United Nations (Privileges and Immunities) Act, 1947 under the optional tax regime (i.e., normal provisions of the Act).

(iii)	Sumptuary allowance granted to High Court or Supreme Court Judges: Sumptuary allowance given to High Court Judges under section 22C of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges under section 23B of the Supreme Court Judges (Conditions of Service) Act, 1958 is not chargeable to tax under the optional tax regime (i.e., normal provisions of the Act).
Note – In cases (i) and (iii) above, the respective Acts provide for such exemption, notwithstanding anything contained in the Income-tax Act, 2025. In case (ii), exemption is provided under the respective Act, notwithstanding anything to the contrary contained in any other law.	

Allowances which are fully exempt under both tax regimes

Allowance granted to Government employees outside India [Schedule III (Table SI No. 9)]: Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India **for services rendered outside India are exempt from tax under both regimes.**

Allowances which are partially exempt under the optional tax regime but fully taxable under default tax regime with few exceptions

SI. No.	Nature of Allowance
(i)	House Rent Allowance [Schedule III (Table SI No. 11)]
(ii)	Special Allowances [Schedule III (Table SI No. 12) & (13)] Except (a) Travelling allowance (b) Transfer allowance (c) Daily allowance (d) Conveyance allowance (e) Transport allowance to blind/ deaf and dumb/ orthopedically handicapped employee Note – The exceptions in (a) to (e) above are exempt or partly exempt under both the tax regimes

Let's discuss these allowances and to the extent they are exempted.

House Rent Allowance

HRA is a special allowance specifically granted to an employee by his employer to meet expenditure actually incurred on payment of rent for residence occupied by the employee. Such allowance is exempt by virtue of Schedule III (Table SI No. 11) to such extent as may be prescribed having regard to the area in which such accommodation is situated. Such residential accommodation should not be owned by the employee.



Accordingly, Rule 279 prescribes that HRA granted to an employee is exempt to the extent of least of the following:

Metro Cities (i.e., Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad and Bengaluru)	Other Cities
1) HRA actually received for the relevant period	1) HRA actually received for the relevant period
2) Rent paid (-) 10% of salary for the relevant period	2) Rent paid (-) 10% of salary for the relevant period
3) 50% of salary for the relevant period	3) 40% of salary for the relevant period



(1) HRA Exemption would be available to an assessee only if he exercises the **option of shifting out of the default tax regime**. It is not available under the default tax regime u/s 202(1).

(2) Exemption is **not available** to an assessee who **lives in his own house**, or in a house for which he has not incurred the expenditure of rent.

(3) "Salary" includes dearness allowance, if provided for under the terms of employment, but excludes all allowances and perquisites. Commission as a fixed percentage of turnover is also to be included.

(4) **Relevant period** means the period during which the said accommodation was occupied and HRA was received by the assessee during the tax year.

ILLUSTRATION 1

Mr. Raj Kumar has the following receipts from his employer:

(1) Basic pay	₹ 40,000 p.m.
(2) Dearness allowance (D.A.)	₹ 6,000 p.m.
(3) Commission	₹ 50,000 p.a.
(4) Motor car for personal use (expenses met by the employer)	₹ 1,500 p.m.
(5) House rent allowance	₹ 15,000 p.m.

Find out the amount of HRA exempt in the hands of Mr. Raj Kumar assuming that he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option under section 202(4) of shifting out of the default tax regime.

SOLUTION

Particulars		Amount (₹)
HRA received		1,80,000
Less: Least of the following would be exempt		1,36,800
(i) HRA received ($₹ 5,000 \times 12$)	1,80,000	
(ii) Rent Paid (-) 10% of salary for the relevant period	1,36,800	
(₹ 16,000 $\times$ 12) (-) 10% of [(₹ 40,000 + ₹ 6,000) $\times$ 12] =		
₹ 1,92,000 - ₹ 55,200		
(iii) 40% salary as his accommodation is situated at Kanpur - 40% of [(₹ 40,000 + ₹ 6,000) $\times$ 12]	2,20,800	
Taxable HRA		43,200

Note: For the purpose of exemption under, salary includes dearness allowance only when the terms of employment so provide and commission as a fixed percentage of turnover but excludes all other allowances and perquisites. Here the commission is not as a fixed percentage of turnover.

Special Allowances

(I) Special allowances to meet expenses relating to performance of duties [Schedule III (Table SI No. 12)]:

As per Schedule III (Table SI No. 12), any allowances or benefit, not being in the nature of a perquisite, specifically granted to meet expenses incurred wholly, necessarily and exclusively in the performance of the duties of an office or employment of profit, **as may be prescribed, would be exempt as per Rule 280(1).**

These allowances would be exempt **to the extent such expenses are actually incurred** for that purpose. In other words, actual allowance received or actual amount spent **for the performance of the duties** of an office or employment of profit, whichever is less would be exempt. Accordingly, Rule 280(1) prescribes the following allowances:

- a) **Travelling Allowance:** Any allowance granted to meet the cost of travel on tour or on transfer;
- b) **Transfer Allowance:** Any sum paid in connection with transfer, packing and transportation of personal effects on such transfer;
- c) **Daily Allowance:** Any allowance, whether granted on tour or for the period of journey in connection with transfer, to meet the ordinary daily charges incurred by an employee on account of absence from his normal place of duty;
- d) **Conveyance Allowance:** Any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office or employment of profit where no free conveyance is provided by the employer;
- e) **Helper Allowance:** Any allowance granted to meet the expenditure incurred on a helper where such helper is engaged for the performance of the duties of an office or employment of profit;
- f) **Research Allowance:** Any allowance granted for encouraging the academic, research and training pursuits in educational and research institutions;

- g) **Uniform Allowance:** Any allowance granted to meet the expenditure incurred on the purchase or maintenance of uniform for wear during the performance of the duties of an office or employment of profit.



An employee who is paying tax under default tax regime u/s 202(1) shall be entitled to exemption only in respect of the allowances listed from (a) to (d) i.e., Travelling Allowance, Transfer Allowance, Daily Allowance and Conveyance Allowance.³

(II) Special allowances to meet personal expenses or for performing duties of special nature [Schedule III (Table SI No. 13)]:

As per Schedule III (Table SI No. 13), special allowances granted to

- to meet his personal expenses at the place where the duties of his office or employment of profit are ordinarily performed by him or at the place where he ordinarily resides or
- to compensate him for the increased cost of living

would be exempt, to the extent as may be prescribed.

Any special allowance granted to the employee to compensate for performing duties of special nature relating to his office or employment shall not be exempted unless such allowance is related to the place of his posting or residence.

Accordingly, Rule 280(2) prescribes the following allowances and the extent to which they are exempted:

S. No.	Name of Allowance	Extent to which allowance is exempt
1.	Any Special Compensatory (Remote locality) Allowance.	₹ 7,000 per month, when not claimed exemption mentioned at SI. No. 4, 5 and 9.

³ As per Rule 280(3), an employee who has exercised the option under section 202(4) to shift out of the default tax regime (i.e., paying tax as per normal provisions/optional tax regime) shall be entitled to exemption only in respect of the allowances specified in clauses (a) to (d) of sub-rule (1). However, the restriction regarding non-allowability of exemption is specifically applicable under the default tax regime. Accordingly, the above interpretation has been adopted considering the legislative intent and scheme of the provisions.

S. No.	Name of Allowance	Extent to which allowance is exempt
	Places covered under Tough Location Allowance -I ⁴	
2	Any Special Compensatory (Remote locality) Allowance. Places covered under Tough Location Allowance -II ⁵	₹ 4,500 per month, when not claimed exemption mentioned at Sl. No. 4, 5 and 9.
3.	Any Special Compensatory (Remote locality) Allowance. Places covered under Tough Location Allowance -III ⁶	₹ 1,500 per month, when not claimed exemption mentioned at Sl. No. 4, 5 and 9.
4.	Compensatory Field Area Allowance [Specified areas in Specified States] ⁷	₹ 13,500 per month
5.	Compensatory Modified Field Area Allowance [Specified areas in Specified States] ⁸	₹ 8,000 per month
6.	Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running such transport from one place to another, provided that such employee is not in receipt of daily allowance	70% of such allowance upto a maximum of ₹ 25,000 per month
7	Children Education Allowance	₹ 3,000 per month per child upto a maximum of two children
8.	Any allowance granted to an employee to meet the hostel expenditure on his child	₹ 9,000 per month per child upto a maximum of two children

⁴ Please refer Rule 280(2) for the places at which such allowance is exempt.

⁵ Please refer Rule 280(2) for the places at which such allowance is exempt.

⁶ Please refer Rule 280(2) for the places at which such allowance is exempt.

⁷ Please refer Rule 280(2) for the places at which such allowance is exempt.

⁸ Please refer Rule 280(2) for the places at which such allowance is exempt.

S. No.	Name of Allowance	Extent to which allowance is exempt						
9.	Any special allowance in the nature of counter insurgency allowance granted to the members of the armed forces operating in areas away from their permanent locations.	₹ 22,000 per month						
10.	Transport allowance granted to an employee, who is blind or deaf and dumb or orthopedically handicapped with disability of lower or upper extremities, to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty	(i) Metro Cities: ₹ 15,000/ + DA thereon per month (ii) Other Cities: ₹ 8,000/- + DA thereon per month						
Important note - An employee paying tax under default tax regime u/s 202(1) shall also be entitled to exemption in respect of this transport allowance.								
11.	Any special allowance in the nature of high-Altitude allowance granted to the member of the armed forces operating in high altitude areas	<table><tr><td>For altitude of 9,000 to 15,000 feet and altitude below 9000 feet with uncongenial climate</td><td>₹ 4,500 per month</td></tr><tr><td>For altitude above 15,000 feet</td><td>₹ 7,000 per month</td></tr><tr><td>All locations of Union territories of Jammu & Kashmir, Ladakh and States of Sikkim and Uttarakhand</td><td>₹ 30,000 per month</td></tr></table>	For altitude of 9,000 to 15,000 feet and altitude below 9000 feet with uncongenial climate	₹ 4,500 per month	For altitude above 15,000 feet	₹ 7,000 per month	All locations of Union territories of Jammu & Kashmir, Ladakh and States of Sikkim and Uttarakhand	₹ 30,000 per month
For altitude of 9,000 to 15,000 feet and altitude below 9000 feet with uncongenial climate	₹ 4,500 per month							
For altitude above 15,000 feet	₹ 7,000 per month							
All locations of Union territories of Jammu & Kashmir, Ladakh and States of Sikkim and Uttarakhand	₹ 30,000 per month							
12.	Underground Allowance granted to an employee who is working in uncongenial,	15% of basic pay						

S. No.	Name of Allowance	Extent to which allowance is exempt
	unnatural climate in underground mines.	
13.	Any special allowance granted to the member of the armed forces in the nature of special compensatory highly active field area allowance	₹ 22,000 per month
14.	Any special allowance granted to the member of the armed forces in the nature of Island (duty) allowance or Island special duty allowance in Andaman & Nicobar and Lakshadweep Group of Islands⁹	Areas around capital town (Port Blair, Kavarattii and Agatti) 10% of Basic Pay
		Difficult Areas 16% of Basic Pay
		More difficult areas 20% of Basic Pay
15.	Siachen Allowance granted to the member of the armed forces	₹ 42,500 per month

Note - For the allowances under this category, there is a limit on the tax-free amount which the employee can receive from the employer. Any amount received by the employee in excess of these specified limits will be taxable in his hands as income from salary for the year. It does not matter whether the amount which is received is actually spent or not by the employee for the purpose for which it was given to him.



ILLUSTRATION 2

Mr. Srikant has two sons. He is in receipt of children education allowance of ₹ 4500 p.m. for his elder son and ₹ 4000 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance : ₹ 1,800 p.m.

⁹ Please refer Rule 280(2) for list of areas classified as difficult area or more difficult area.

Special Compensatory (Remote locality)

Allowance (place covered in tough location allowance I) : ₹ 8,000 p.m.

Compute his taxable allowances.

SOLUTION

Taxable allowance in the hands of Mr. Srikant is computed as under -

If Mr. Srikant exercises the option under section 202(4) of shifting out of the default tax regime

Children Education Allowance:

- Elder son [(₹ 4,500 – ₹ 3,000) p.m. × 12 months] ₹ 18,000
- Younger son [(₹ 4,000 – ₹ 3,000) p.m. × 12 months] ₹ 12,000

Transport allowance (₹ 1,800 p.m. × 12 months) ₹ 21,600

Special Compensatory (Remote locality) Allowance

[(₹ 8,000 – ₹ 7,000) p.m. × 12 months] ₹ 12,000

Taxable allowances ₹ 63,600

If Mr. Srikant pays tax under default tax regime under section 202(1)

Children Education Allowance [(₹ 4,500 + ₹ 4,000) p.m. × 12 months] ₹ 1,02,000

Transport allowance (₹ 1,800 p.m. × 12 months) ₹ 21,600

Special Compensatory (Remote locality) Allowance (₹ 8,000 × 12) ₹ 96,000

Taxable allowances ₹ 2,19,600



3.	Mr. A, employed in Bengaluru, receives House Rent Allowance (HRA) of ₹ 25,000 p.m. He pays rent of ₹ 28,000 p.m. for a rented accommodation occupied by him. He is paying tax under default tax regime under section 202(1). The tax treatment of HRA would be –
(a)	Fully exempt
(b)	Partially exempt
(c)	Fully taxable
(d)	Exempt up to 50% of salary

4.	Mr. Y, a blind employee working in Mumbai, receives transport allowance of ₹ 18,000 p.m. plus DA thereon. The exemption available under the default tax regime would be –
(a)	Nil
(b)	₹ 8,000 p.m. plus DA thereon
(c)	₹ 15,000 p.m. plus DA thereon
(d)	Entire allowance received

Annuity or Pension

Meaning of Annuity

♦ As per the definition, 'annuity' is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.

- ♦ Annuity received from a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.
- ♦ Annuity received from a past employer is taxable as profit in lieu of salary.
- ♦ Annuity received from person other than an employer is taxable as **"Income from other sources"**.

Pension

- ♦ *Concise Oxford Dictionary* defines 'pension' as a periodic payment made especially by Government or a company or other employers to the employee in consideration of past service payable after his retirement.

Pension is of two types: commuted and uncommuted

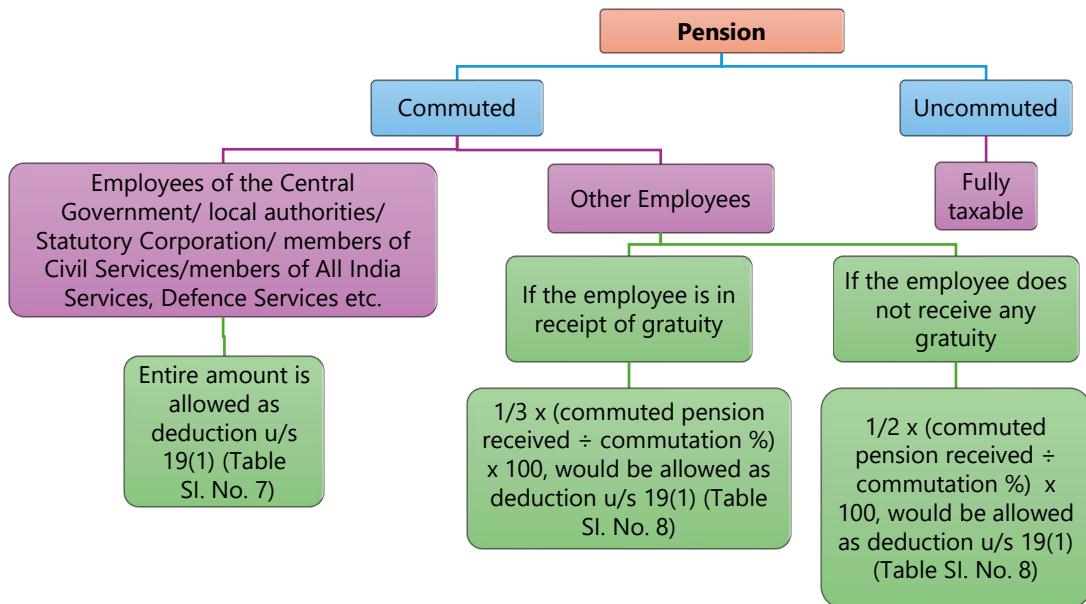
- ♦ **Uncommuted Pension:** Uncommuted pension refers to pension received periodically. It is fully taxable in the hands of both government and non-government employees.
- ♦ **Commuted Pension:** Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately.



EXAMPLE Suppose a person is entitled to receive a pension of say ₹ 30,000 p.m. for the rest of his life. He may commute $\frac{1}{4}$ th i.e., 25% of this amount and get a lumpsum of say ₹ 5,00,000. After commutation, his pension will now be the balance 75% of ₹ 30,000 p.m. = ₹ 22,500 p.m.

Deduction in respect of Commuted Pension [Section 19(1) (Table SI No.7 & 8)]

Section 19 provides that income chargeable under the head “Salaries” shall be computed after making certain deductions in respect of certain sums including commuted pension. Accordingly, Table SI No. 7 & 8 provide for the deduction available in respect of commuted pension. The following diagram/ flowchart depicts the tax treatment of commuted and uncommuted pension:



Remember this too (1) Deduction u/s 19(1) (Table SI. No.7 & 8) in respect of commuted pension is available to an assessee irrespective of the regime under which he pays tax.

(2) Judges of the Supreme Court and High Court will be entitled to the deduction of the commuted portion u/s 19(1) (Table SI. No. 7).

ILLUSTRATION 3

Mr. Sagar who retired on 1.10.2026 is receiving ₹ 20,000 p.m. as pension. On 1.2.2027, he commuted 60% of his pension and received ₹ 3,00,000 as commuted

pension. You are required to compute net pension amount includible under the head "Salaries" assuming:

- (a) *He is a Government employee.*
- (b) *He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.*
- (c) *He is a private sector employee and did not receive any gratuity at the time of retirement.*

SOLUTION

(a) He is a Government employee

Uncommuted pension received (October – March)	₹ 96,000
[(₹ 20,000 × 4 months) + (40% of ₹ 20,000 × 2 months)]	
Commuted pension received	<u>₹ 3,00,000</u>
	₹ 3,96,000
₹ 3,00,000, being the entire sum received as commuted pension allowed as deduction u/s 19(1) (Table SI. No. 7)	<u>₹ 3,00,000</u>
	<u>₹ 96,000</u>

(b) He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement

Uncommuted pension received (October – March)	₹ 96,000
[(₹ 20,000 × 4 months) + (40% of ₹ 20,000 × 2 months)]	
Commuted pension received	<u>₹ 3,00,000</u>
	₹ 3,96,000
Deduction u/s 19(1) (Table SI. No. 8)	
$\left(\frac{1}{3} \times \frac{₹ 3,00,000}{60} \times 100\right)$	<u>₹ 1,66,667</u>
	<u>₹ 2,29,333</u>

(c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March)	₹ 96,000
[(₹ 20,000 × 4 months) + (40% of ₹ 20,000 × 2 months)]	
Commuted pension received	<u>₹ 3,00,000</u>
	₹ 3,96,000

Deduction u/s 19(1) (Table SI. No. 8)

$$\left(\frac{1}{2} \times \frac{₹ 3,00,000}{60} \times 100\right)$$

₹ 2,50,000

₹ 1,46,000

Exemption in respect of pension received by recipient of gallantry awards [Schedule III (Table SI. No. 14)]

Pension received by an individual is exempt from income-tax if –

- (a) such individual was an employee of Central or State Government **and**
- (b) has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award notified by the Central Government in this behalf.

In case of the **death of such individual**, any income by way of family pension received by any member of the family of such individual shall also be exempt under Schedule III (Table SI no. 15).

Exemption of disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service [Schedule III (Table SI. No. 38A)]

Disability pension received (including services element and disability element) by an individual who has been a member of the armed forces (including paramilitary forces) of the union would be exempt if –

- (a) the individual has been invalided out of service in the armed forces on account of bodily disability attributable to, or aggravated by such service; and
- (b) the individual has not retired on superannuation or otherwise.



- (1) "Family", in relation to an individual, means –
 - spouse and children of the individual; and
 - parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.



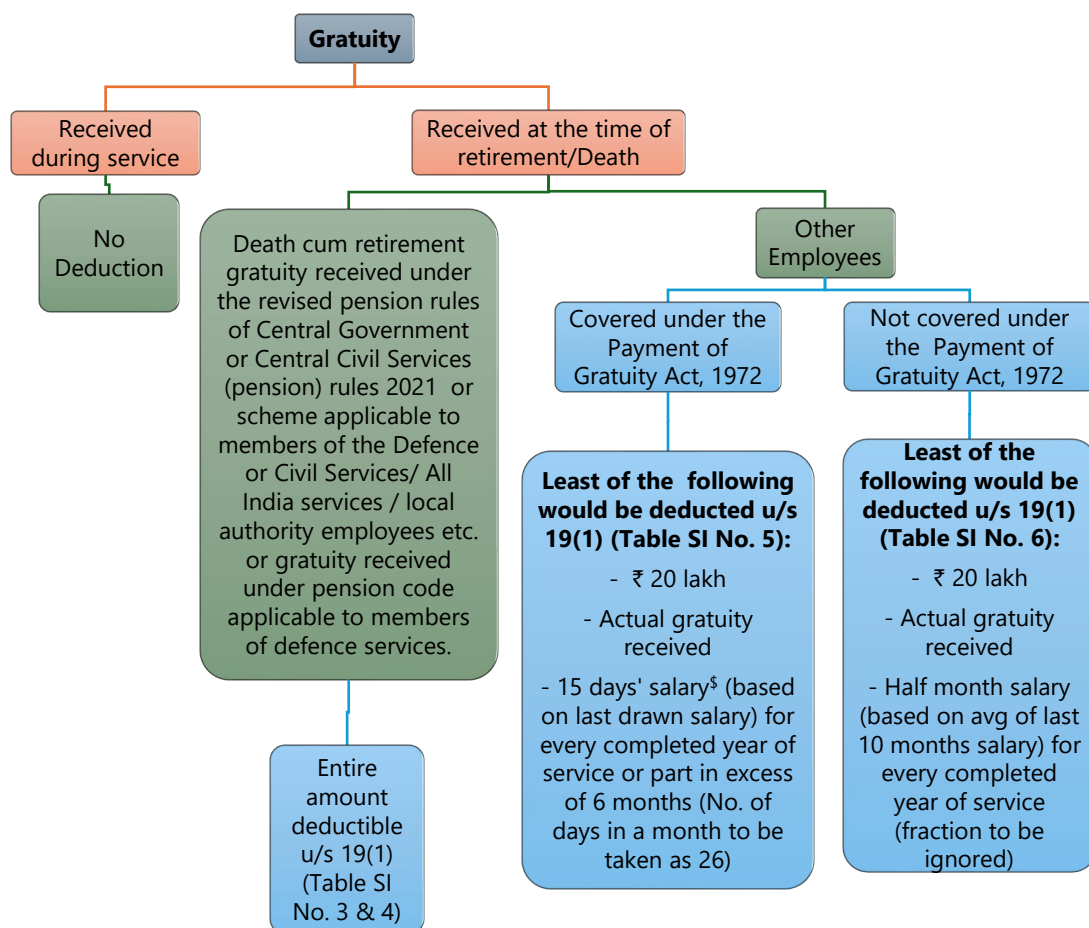
- (2) Exemption under Schedule III (Table SI. No. 14 and 15) and [Table SI. No. 38A] would be available to an assessee irrespective of the regime under which he pays tax.

Gratuity

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Now-a-days gratuity has become a normal payment applicable to all employees. In fact, Payment of Gratuity Act, 1972¹⁰ is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.

Deduction in respect of Gratuity [Section 19(1) (Table SI. No. 3, 4, 5 and 6)]

Let's discuss the following deductions in respect of gratuity provided under section 19(1) (Table SI No. 3, 4, 5 & 6):



¹⁰ Now Code on Social Security, 2020

Exemption in respect of gratuity received by widow, children or dependents [Schedule III (Table SI. No. 38)]

Amount computed above as deduction in respect of any gratuity received by widow, children or dependents on death of an employee would be exempt by virtue of Schedule III [Table SI. No. 38]

Meaning of Salary	
Covered under the Payment of Gratuity Act, 1972	Not covered under the Payment of Gratuity Act, 1972
Salary for this purpose means basic salary and dearness allowance. No. of days in a month for this purpose, shall be taken as 26.	Salary for this purpose means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits, forming part of salary and commission which is expressed as a fixed percentage of turnover.

ILLUSTRATION 4

Mr. Ravi retired on 15.6.2026 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary : ₹ 50,000 p.m.

Dearness Allowance : ₹ 10,000 p.m. (60% of which is for retirement benefits)

Commission : 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)

Bonus : ₹ 25,000 p.a.

Compute deduction in respect of gratuity assuming:

- He is private sector employee and covered under the Payment of Gratuity Act, 1972.*
- He is private sector employee and not covered under the Payment of Gratuity Act, 1972.*
- He is a Government employee.*

SOLUTION

(a) He is covered under the Payment of Gratuity Act 1972

Deduction under section 19(1) (Table SI No. 5), would be 9,34,615

least of the following:

- i. Gratuity received ₹ 15,00,000
- ii. Statutory limit ₹ 20,00,000

iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

$$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$$

$$\frac{15}{26} \times (50,000 + 10,000) \times 27 = ₹ 9,34,615$$

(b) He is not covered under the Payment of Gratuity Act 1972

Deduction under section 19(1) (Table SI No. 6) would be 8,58,000

least of the following:

- (i) Gratuity received ₹ 15,00,000
- (ii) Statutory limit ₹ 20,00,000
- (iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

$$\text{i.e. } \frac{1}{2} \times \text{Average salary} \times \text{years of service}$$

$$= \frac{1}{2} \times \frac{\left[(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left(1\% \times 1,20,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26$$

$$= ₹ 8,58,000$$

(c) He is a government employee

Deduction under section 19(1) (Table SI No. 3) would be amount received as gratuity i.e., ₹ 15,00,000



5.	<i>Family pension received after the death of a central government employee who was awarded "Vir Chakra" shall be exempt in the hands of –</i>	
	(a)	<i>Only the spouse</i>
	(b)	<i>Any member of the family as defined</i>
	(c)	<i>Only dependent children</i>
	(d)	<i>Only parents of the deceased individual</i>
6.	<i>Mr. X, son of a deceased employee, receives gratuity after the death of his father. The gratuity received by him shall be –</i>	
	(a)	<i>Fully taxable as salary</i>
	(b)	<i>Exempt to the extent computed as deduction under gratuity provisions</i>
	(c)	<i>Taxable as family pension</i>
	(d)	<i>Exempt only if father was a Government employee</i>

Fees or Commission

The payment in the form of fees or commission by the employer to the employee is fully taxable. Commission may be paid as fixed percentage of turnover or net profits etc.

Perquisites

The term 'perquisite' indicates some extra benefit in addition to the amount that may be legally due by way of contract for services rendered. In modern times, the salary package of an employee normally includes monetary salary and perquisites like housing, car etc.

- ♦ Perquisite may be provided in cash or in kind.
- ♦ Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.

- ♦ Perquisite may arise in the course of employment or in the course of profession. If it arises from a relationship of employer-employee, then the value of the perquisite is taxable as salary. However, if it arises during the course of profession, the value of such perquisite is chargeable as profits and gains of business or profession.
- ♦ Perquisite will become taxable only if it has a legal origin. Any unauthorised advantage taken by an employee without his employer's sanction cannot be considered as a perquisite under the Act.

Section 17 contains the provisions relating to perquisites. The provisions of this section are discussed in detail separately under the heading 1.3.2 in this unit.

Profits in lieu of salary

Profit in lieu of or in addition to salary or wages is the extra monetary benefit related to employment, especially given at the time of joining, leaving or modifying the terms of employment. Even if the amount is received after leaving the employment, it can still be taxed as salary, if it arises from employment.



If an employee receives ₹ 5,00,000 as compensation for early termination of employment, it will be treated as profit in lieu of salary and taxed under the head "Salaries".

Section 18 contains the provisions relating to "profits in lieu of salary". The provisions of this section are discussed in detail separately under the heading 1.3.3 in this unit.

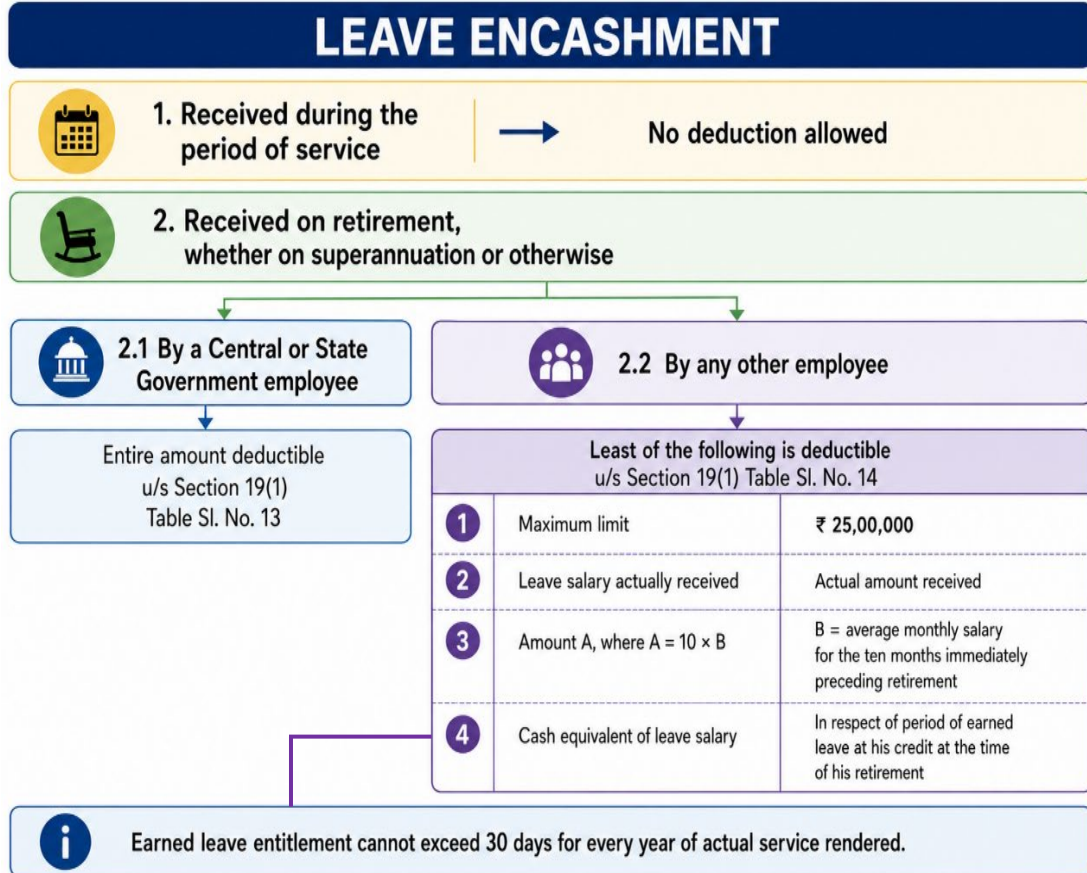
Leave Salary or Leave Encashment

Generally, employees are allowed to take leave during the period of service. Employees may avail such leave or in case the leave is not availed, then the leave may either lapse or be accumulated for future or allowed to be encashed every year or at the time termination/retirement. The payment received on account of encashment of unavailed leave would form part of the salary.

Deduction in respect of amount received by way of encashment of unutilised earned leave by an employee at the time of his retirement, whether on superannuation or otherwise is allowed under section 19(1) (Table SI No. 13 & 14).

Deduction in respect of encashment of unutilised earned leave on retirement [Section 19(1) (Table SI No. 13 & 14)]

The deduction provisions are depicted hereunder:




Earned leave entitlement cannot exceed 30 days for every year of actual service rendered.

- ◆ Where any payment on account of cash equivalent of leave salary is received from one or more employers in the same tax year, then the aggregate amount of deduction in respect of leave salary cannot exceed $A - B$,

Where,

$A =$ Limit specified by the Central Government, i.e., ₹ 25,00,000



B= aggregate amount of payment(s) received in one or more earlier tax years and allowed as an exemption or deduction from the total income of such tax year(s).

- ◆ Where leave salary is received in any earlier tax year from a former employer and again received from another employer in a later tax year, the limit of ₹ 25,00,000 will be reduced by the amount of leave salary exempt/deducted earlier.
- ◆ Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits and commission which is expressed as a fixed percentage of turnover.
- ◆ Deduction under section 19(1) (Table Sl. No.13 and 14) would be available to an assessee irrespective of the regime under which he pays tax.

ILLUSTRATION 5

Mr. Gupta retired on 1.12.2026 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary : 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2026)
Dearness Allowance : 3,000 p.m. (60% of which is for retirement benefits)
Commission : 500 p.m.
Bonus : 1,000 p.m.

Leave availed during service : 480 days

He was entitled to 30 days leave every year.

You are required to compute deduction in respect of leave salary assuming:

- (a) He is a government employee.*
- (b) He is a non-government employee.*

SOLUTION

(a) He is a government employee

Entire amount of leave salary of ₹ 5,00,000 would be allowed as deduction under section 19(1) (Table Sl. No.13).

(b) He is a non-government employee

Deduction would be least of the following as per section 19(1) (Table SI. No. 14)

- (i) Cash equivalent of leave salary in respect of the period of earned leave standing at the credit of the employee at the time of his retirement (not exceeding 30 days per year of service)

Unavailed leave = Leave allowed – Leave taken

$$= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days}$$

Cash Equivalent = Leave Salary received $\times \frac{\text{Leaves unavailed}}{\text{Leaves encashed at retirement}}$

$$\text{Cash Equivalent} = 5,00,000 \times \frac{120}{120} = ₹ 5,00,000$$

- (ii) $A = 10 \times B$

B = Average monthly salary for 10 months immediately preceding his retirement

$$\begin{aligned} \text{i.e., } & \left[10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right] \\ & = \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] \quad ₹ 66,000 \end{aligned}$$

- (iii) Statutory limit ₹ 25,00,000

- (iv) Leave salary received ₹ 5,00,000

Hence, deduction in respect of leave salary would be ₹ 66,000.

Provident fund

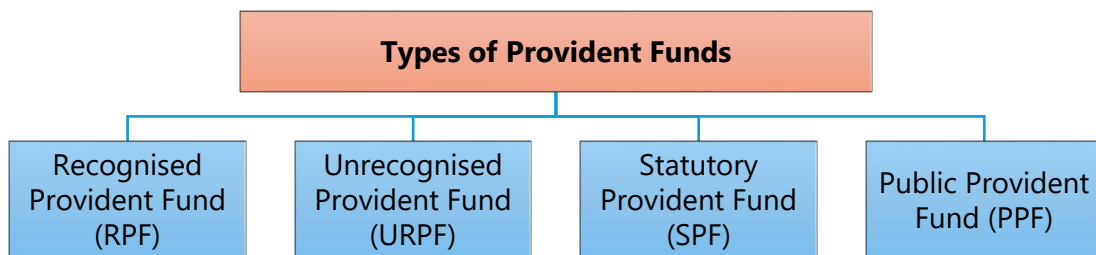
Provident fund scheme is a scheme intended to give monetary benefits to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee each month or at regular intervals as his contribution towards the fund. The employer also generally contributes the same amount out of his pocket, to the fund. The contributions of the employer and the employee are invested in approved securities. Interest earned thereon is also credited to the account of the employee. Thus, the credit balance in a provident fund account of an employee consists of the following:

- (i) employee's contribution
- (ii) interest on employee's contribution
- (iii) employer's contribution
- (iv) interest on employer's contribution.

The accumulated balance is paid to the employee at the time of his retirement or resignation. In the case of death of the employee, the same is paid to his legal heirs.

The provident fund represents an important source of small savings available to the Government. Hence, the Income-tax Act, 2025 gives certain deductions on savings in a provident fund account.

Transferred Balance in respect of recognized provident fund: Aggregate of all sums comprised in the transferred balance of an employee participating in the recognized provident fund to the extent it is taxable is included in the salary income of the employee.



(i) Recognised Provident Fund (RPF): Recognised provident fund means a provident fund recognised by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner of Income-tax for the purposes of income-tax. It is governed by Part A of Schedule XI to the Income-tax Act, 2025. This schedule contains various rules regarding the following:

- (a) Recognition of the fund
- (b) Employee's and employer's contribution to the fund
- (c) Treatment of accumulated balance etc.

A fund constituted under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 will also be a Recognised Provident Fund.

According to section 16(i), annual accretion to the balance at the credit of an employee participating in RPF, to the extent it is chargeable to tax as per para 6 of Part A of Schedule XI, forms part of salary.

The said para 6 states that the portion of annual accretion to the balance of an employee in a RPF which consists of **interest credited at a rate exceeding the rate fixed by the Central Government notification shall be included in his total income and shall be liable to income tax.** The Central Government has by notification fixed such rate of interest at 9.5% per annum.

Annual accretion

Annual accretion in relation to the balance to the credit of an employee means the increase to such balance, in any year arising from contributions and interest.

Contribution means any sum credited by or on behalf of any **employee** out of his salary, or by an **employer** out of his own funds, to the individual account of an employee, excluding any sum credited as interest.

Contribution

- (ii) **Unrecognised Provident Fund (URPF):** A fund which is not recognised by the Commissioner etc. of Income-tax is Unrecognised Provident Fund.
- (iii) **Statutory Provident Fund (SPF):** The SPF is governed by Provident Funds Act, 1925. It applies to employees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions.
- (iv) **Public Provident Fund (PPF):** Public provident fund is operated under the Public Provident Fund Act, 1968. Membership of the fund is open to every individual though it is ideally suited to self-employed people. A salaried employee may also contribute to PPF in addition to the funds operated by his employer. An individual may contribute to the fund on his own behalf or on behalf of a minor of whom he is the guardian.

For getting a deduction under section 123, a member is required to contribute to the PPF a minimum of ₹ 500 in a year. The maximum amount that may qualify for deduction on this account is ₹ 1,50,000 as per PPF rules.

A member of PPF may deposit his contribution in as many installments in multiples of ₹ 500 as is convenient to him. The amount of contribution may be paid at any of the offices or branch offices of the State Bank of India or its subsidiaries and specified branches of banks or any Post Office.

The tax treatment is given below:

During the Employment period				
Particulars	Recognised PF	Unrecognised PF	Statutory PF	Public PF
Employer's Contribution	Not taxable except as specified in Note below.	Not taxable at the time of contribution	Fully exempt	N.A. (as there is only assessee's own contribution)
Note - Aggregate contribution in recognized provident fund, notified pension scheme referred to in section 124(1) and in an approved Superannuation fund in excess of ₹ 7,50,000 in a tax year would be taxable as perquisite as per section 17(1)(h).				
Employee's Contribution	Eligible for deduction u/s 123, where an employee exercises the option under section 202(4) of shifting out of the default tax regime	Not eligible for deduction	Eligible for deduction u/s 123, where an employee exercises the option under section 202(4) of shifting out of the default tax regime	Eligible for deduction u/s 123, where an employee exercises the option under section 202(4) of shifting out of the default tax regime
Interest Credited on Employer's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 16	Not taxable at the time of credit of interest	Fully exempt	N.A.
Interest Credited on Employee's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 16 [See Note below]	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution [See Note below]	Fully exempt
Note – However, where employee's/person's yearly contribution made on or after 1.4.2021 exceed ₹ 5,00,000 (where no contribution is made by employer) and ₹ 2,50,000 in other cases, entire interest accrued during the tax year on such				

exceeding contribution would be taxable as per Schedule II (Table SI No. 3 & 4). Such interest shall be computed in the following manner as provided in Rule 277.

Computation of interest on employee contribution exceeding the threshold limit [Rule 277]

For calculation of taxable interest, separate accounts within the provident fund account shall be maintained during the tax year 2021-22 and all subsequent tax years for taxable contribution and non-taxable contribution made by a person.

(a)	Non-taxable contribution account – Aggregate of
	(i) closing balance in the account as on 31.03.2021; (ii) any contribution made by the person in the account during the tax year 2021-22 and subsequent tax years, which is not included in the taxable contribution account; and (iii) interest accrued on (i) and (ii), as reduced by the withdrawal, if any, from such account.
(b)	Taxable contribution account – Aggregate of
	(i) contribution made by the person in the account during the tax year 2021-22 and subsequent tax years, which is in excess of the yearly threshold limit of ₹ 5,00,000/ ₹ 2,50,000, as the case may be; and (ii) interest accrued on (i) as reduced by the withdrawal, if any, from such account.

At the time of withdrawals on retirement/termination

Particulars	Recognised PF	Unrecognised PF	Statutory PF	Public PF
Amount withdrawn on retirement/termination	Exempt under Schedule II (Table SI No. 4) subject to certain conditions detailed in the table below.	• Employee's contribution is not taxable. • Interest on Employee's contribution is taxable under 'Income from Other Sources'. • Employer's contribution	Exempt under Schedule II (Table SI No. 3) [Refer Table below]	Exempt under Schedule II (Table SI No. 3) [Refer Table below]

		and interest thereon is taxable salary		
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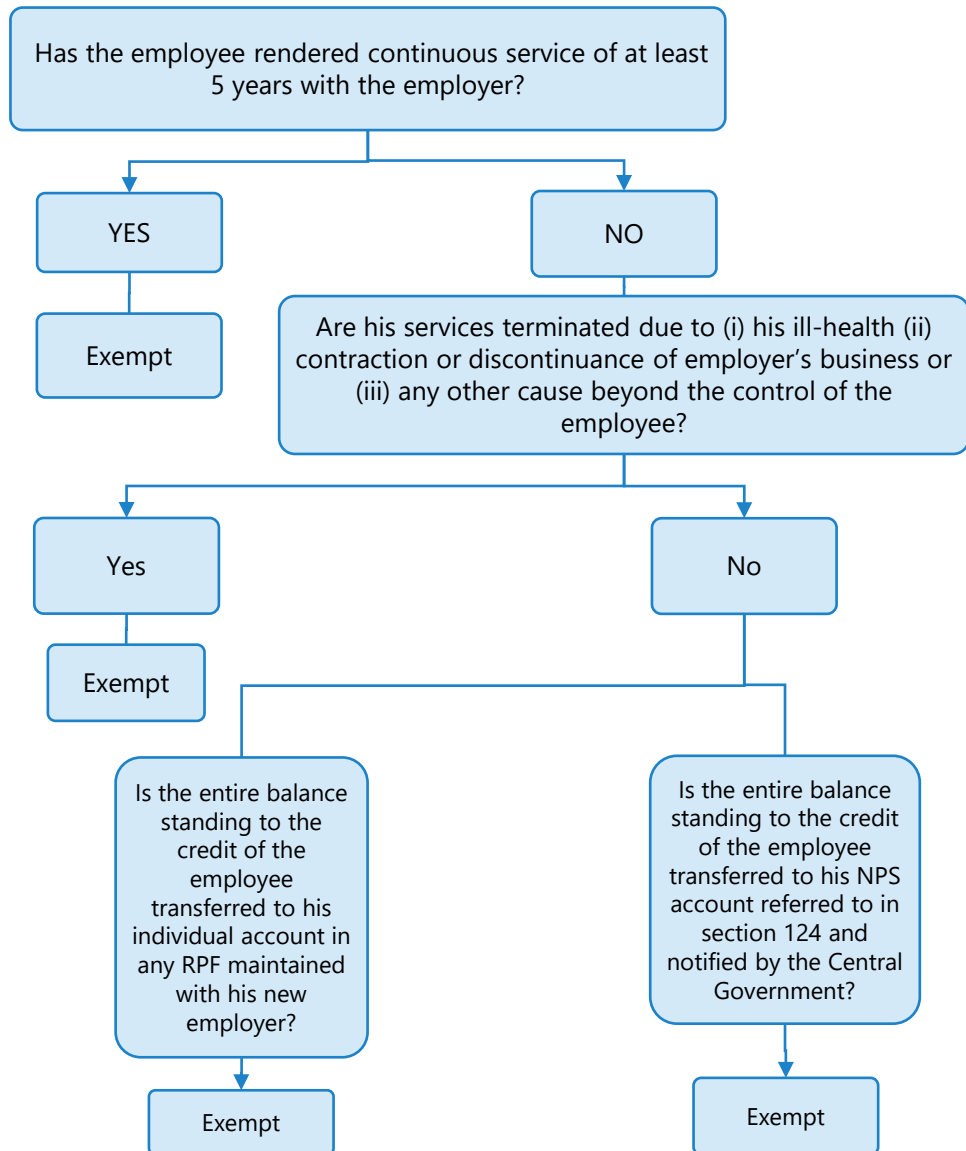
Payment from various funds shall be exempt from tax as follows:

Related Schedule	Income not to be included in total income	Conditions
Schedule II (Table SI No. 3)	Any payment from a Provident Fund (PF) to which Provident Fund Act, 1925 applies or from Public Provident Fund	(a) Interest accrued during the tax year shall not be exempted from total income where- (i) It is attributable to the contribution (including aggregate contribution) made by that person on or after 1.4.2021 (ii) Such contribution exceeds ₹ 5,00,000 in a tax year where no contribution is made by employer and ₹ 2,50,000 in other cases (b) Interest not to be exempted shall be computed as prescribed in Rule 277 discussed above.
Schedule II (Table SI No. 4)	Accumulated balance due and becoming payable to an employee participating in RPF to the extent provided in Para 8 of Part A of Schedule XI discussed in the chart below.	(a) Interest accrued during the tax year shall not be exempted from total income where- (i) It is attributable to the contribution (including aggregate contribution) made by that person on or after 1.4.2021 (ii) Such contribution exceeds ₹ 5,00,000 in a tax year where no contribution is made by employer and ₹ 2,50,000 in other cases (b) Interest not to be exempted shall be computed as prescribed in Rule 277 discussed above.



Exemption under Schedule II (Table SI No.3 & 4) would be available to an assessee irrespective of the regime under which he pays tax.

Exemption of Accumulated balance of RPF, payable to an employee



1. Where the accumulated balance in RPF becomes taxable, the tax payable in each of the years would be computed as if the fund

had been an URPF and the difference in tax would be payable by the employee.

2. If, after termination of his employment with one employer, the employee obtains employment under another employer, then, only so much of the accumulated balance in his provident fund account will be exempt which is transferred to his individual account in a recognised provident fund maintained by the new employer. In such a case, for exemption of payment of accumulated balance by the new employer, the period of service with the former employer shall also be taken into account for computing the period of five years' continuous service.

ILLUSTRATION 6

Mr. A retires from service on December 31, 2026, after 25 years of service. Following are the particulars of his income/investments for the tax year 2026-27:

Particulars	₹
<i>Basic pay @ ₹ 16,000 per month for 9 months</i>	<i>1,44,000</i>
<i>Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months</i>	<i>72,000</i>
<i>Lumpsum payment received from the Unrecognized Provident Fund</i>	<i>6,00,000</i>
<i>Deposits in the PPF account</i>	<i>40,000</i>

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the tax year 2026-27?

SOLUTION

Taxable portion of the amount received from the URPF in the hands of Mr. A for the tax year 2026-27 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000

Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

Note: Since the employee is not eligible for deduction under section 123 for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

ILLUSTRATION 7

Will your answer be any different if the fund mentioned above was a recognised provident fund?

SOLUTION

Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

ILLUSTRATION 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the tax year 2026-27. You are required to compute his salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	₹ 50,00,000
Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	₹ 13,000

Assume he has shifted out of the default tax regime by exercising option under section 202(4).

SOLUTION

Computation of Salary of Mr. B for the tax year 2026-27

Particulars	₹	₹
Basic Salary [₹ 10,000 × 12]		1,20,000
Dearness Allowance [₹ 8,000 × 12]		96,000
Commission on turnover [0.1% × ₹ 50,00,000]		5,000
Bonus		40,000
Gratuity		25,000
Employer's contribution to RPF [Not taxable since it does not exceed ₹7,50,000]		Nil
Interest accrued in the RPF@13% p.a.	13,000	
Less: Exempt@9.5% p.a.	9,500	3,500
Gross Salary		2,89,500
Less: Standard Deduction		50,000
Net Salary		2,39,500

Notes:

1. Gratuity received during service is fully taxable.
2. Employee's contribution to RPF is **not** taxable. It is eligible for deduction under section 123, since he exercises the option under section 202(4) of shifting out of the default tax regime.

Notified Pension Scheme

National Pension scheme is a scheme approved by the Government for Indian citizen aged between 18-70 years. Subscribers of the NPS account contributes some amount in their account. In case of any employee, being a subscriber of the NPS account, employer may also contribute into the employee's account.

The contribution made by the Central Government or any other employer in the tax year to the account of an employee under a notified pension scheme referred to in section 124 is taxable under the head "Salaries".

Further, if the employer contribution to RPF, NPS and superannuation fund exceeds ₹ 7,50,000 in a tax year, the excess would be treated as a taxable perquisite.

However, while computing total income of the employee, a deduction under section 124(1)/(2) is allowed to the assessee in respect of the employer's contribution as does not exceed -

- ♦ 14% of salary, where such contribution is made by employer being Central Government or State Government
- ♦ 10% of salary, where such contribution is made by any other employer [If employee paying tax under default tax regime u/s 202(1), then employer's contribution as does not exceed @ 14% of salary is allowed as deduction].

EXAMPLE *The basic salary of Mr. Ganesh, CEO of A Ltd., is ₹ 50 lakh for tax year 2026-27. Dearness allowance which forms part of pay is 60% of basic salary. A Ltd. contributes 10% of salary to NPS account of Mr. Ganesh. Assume that there is no employer contribution to PF or superannuation fund. Discuss the tax implication in respect of A Ltd.'s contribution to NPS.*

The entire employer contribution of ₹ 8 lakh (10% of ₹ 80 lakh) would be included in salary. In addition, ₹ 50,000, being the employer contribution to NPS in excess of ₹ 7.50 lakh would be included as perquisite. Deduction u/s 124(1) for employer contribution to NPS would be ₹ 8 lakh. In effect, in this example, ₹ 50,000 would be included in total income and subject to tax.

Deduction for employee's contribution under a pension scheme is available under section 123 as well as 124(3)/(4). (Deduction under section 123 and 124 will be discussed in detail in Chapter 6 – "Deductions from Gross Total Income")



Deduction under section 124(1)/(2) in respect of employer's contribution would be available to an assessee irrespective of the regime under which he pays tax. However, deduction under section 123 and 124(3)/(4) in respect of employee's contribution would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.

Agniveer Corpus Fund

Agnipath Scheme is a Central Government Scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces as Agniveers for four years to serve the country.

In pursuance of the Government's decision to implement the Agnipath Scheme, 2022, the Competent Authority has decided to create a non-lapsable dedicated Agniveer Corpus Fund in the interest-bearing section of the Public Account head.

In this account, fixed percentage of monthly emoluments would be contributed by the Agniveer and matching amount would be contributed by the Central Government.

The Agniveer Corpus Fund is defined as a Fund in which consolidated contributions of all the Agniveers and matching contributions of the Government along with interest on these contributions would be held in their respective accounts.

The contribution made by the Central Government in the tax year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 125 would form part of salary of employees under section 16(1).

However, while computing total income of an individual enrolled in the Agnipath Scheme, being the assessee, a deduction under section 125 is allowed to the assessee in respect of his contribution as well as Central Government's contribution under Agniveer Corpus Fund referred therein.

(Deduction under section 125 will be discussed in detail in Chapter 6 – "Deductions from Gross Total Income")



- ◆ Deduction under section 125(2) in respect of Central Government's contribution would be available to an assessee irrespective of the regime under which he pays tax.
- ◆ However, deduction under section 125(1) in respect of employee's contribution would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.



7.	Interest credited during the tax year in a Public Provident Fund account would lose exemption where the contribution made on or after 1.4.2021 exceeds the specified threshold limit. The threshold limit where no employer contribution is made is –
(a)	₹ 1,50,000
(b)	₹ 2,50,000
(c)	₹ 5,00,000
(d)	₹ 7,50,000
8.	Interest on employee's contribution in an Unrecognised Provident Fund at the time of withdrawal shall be taxable under the head –
(a)	Salaries
(b)	Capital Gains
(c)	Income from Other Sources
(d)	Profits and Gains of Business or Profession
9.	Mr. Ganesh receives employer contribution to NPS amounting to ₹ 8 lakh during the tax year. There is no employer contribution to PF or superannuation fund. The amount taxable as perquisite would be –
(a)	Nil
(b)	₹ 50,000
(c)	₹ 8,00,000
(d)	₹ 7,50,000

1.3.2 Perquisite

The term “perquisite” is defined under section 17(1). The definition of perquisite is an inclusive one. The Income- tax Rules, 2026 contain the provisions for valuation of perquisites. It is important to note that only those perquisites which the employee actually enjoys have to be valued and taxed in his hand.



EXAMPLE Suppose a company offers rent-free housing accommodation to an employee but the latter declines to accept it, then the value of such accommodation obviously cannot be evaluated and taxed in the hands of the employees.

Let's discuss the perquisite and their valuation rules one by one –

Rent Free Accommodation

Clause (a) and (b) of section 17(1) contains the provisions relating to rent free accommodation as follows:

- (a) Value of rent-free accommodation provided to the assessee by his employer computed in the prescribed manner shall be considered as perquisite and taxable as salary.
- (b) Value of any accommodation provided to the assessee by his employer at a concessional rate, which exceeds the rent recoverable from, or payable by, the assessee and such value of accommodation should be computed in the prescribed manner shall also be considered as perquisite and taxable as salary.

Accordingly, for the purpose of computing the income chargeable under the head "Salaries", the value of perquisites provided by the employer, either directly or indirectly, to the employee or to any member of his household by reason of his employment, shall be determined in accordance with Rule 15.

Rule 15(2) prescribes that the value of residential accommodation provided by the employer referred in (a) and (b) above during the tax year shall be determined in the following manner –

Sl. No.	Circumstances	In case of unfurnished accommodation	In case of furnished accommodation
(1)	(2)	(3)	(4)
1.	Where the accommodation is provided by the Central Government or any State	License fee determined by the Central Government or any State Government in respect of	The value of perquisite as determined under column (3) should be increased by (i) If furniture is owned by employer,

	Government to the employees	accommodation in accordance with the rules framed by such Government as reduced by the rent actually paid by the employee.	10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment). (ii) If such furniture is hired from a third party, - The actual hire charges payable for the same as reduced by - any charges paid or payable for the same by the employee during the tax year
2.	Where the accommodation is provided by any other employer (a) <u>where the accommodation is owned by the employer</u>	(i) 10% of salary in cities having population > 40 lakhs as per 2011 census; (ii) 7.5% of salary in cities having population > 15 lakhs ≤ 40 lakhs as per 2011 census; (iii) 5% of salary in other areas, as reduced by the rent, if any, actually paid by the employee. Salary to be considered for the period during which the said accommodation was	The value of perquisite as determined under column (3) should be increased by (i) If furniture is owned by employer, 10% per annum of the cost of furniture (including television sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliances or gadgets). (ii) If such furniture is hired from a third party, - the actual hire charges payable for the same as reduced by - any charges paid or payable for the same by

		occupied by the employee during the tax year	the employee during the tax year
	(b) <u>where the accommodation is taken on lease or rent by the employer</u>	• Actual amount of lease rental paid or payable by the employer or • 10% of salary whichever is lower, as reduced by • the rent, if any, actually paid by the employee. Salary to be considered for the period during which the said accommodation was occupied by the employee during the tax year	The value of perquisite as determined under column (3) should be increased by (i) If furniture is owned by employer, 10% per annum of the cost of furniture (including television sets, radio sets, refrigerators, other household appliances, air-conditioning plant or equipment or other similar appliances or gadgets). (ii) If such furniture is hired from a third party, • the actual hire charges payable for the same as reduced by • any charges paid or payable for the same by the employee during the tax year
3.	Where the accommodation is provided by any employer, whether Government or any other employer, in a hotel.	Not applicable	• 24% of salary paid or payable or • the actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided as reduced by

		the rent, if any, actually paid or payable by the employee. However, where the employee is provided such accommodation for a period not exceeding in aggregate 15 days on his transfer from one place to another, there would be no perquisite.
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Exception: Rent free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court is not taxable if they exercise the option of shifting out of the default tax regime.

Exception

[As per section 22A(2) of the High Court Judges (Conditions of Service) Act, 1954 and section 23(1A) of the Supreme Court Judges (salaries and Conditions of Services) Act, 1958]

Notes:

- (1) **Accommodation provided on account of transfer from one place to another:** If an employee is provided with accommodation, on account of his transfer from one place to another, at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower perquisite value, as calculated above, for a period not exceeding 90 days and thereafter, the value of perquisite shall be charged for both such accommodations.
- (2) **Value of perquisite to be restricted to CII:** Where the accommodation is owned or taken on lease or rent by the employer and the same accommodation is continued to be provided to the same employee for more than one tax year, the value of perquisite as calculated in Sl. No. 2. above shall not exceed the amount so calculated for the first tax year (first tax year shall be tax year 2023-24 or tax year in which the accommodation is provided to the employee, whichever is later), as multiplied by the amount which is a ratio of the CII for the tax year for



which the value is calculated and the CII for the tax year in which the accommodation was initially provided to the employee.

Perquisite value shall be lower of the following:

- (a) Perquisite value determined for the current tax year as per the rule stated above.
 - (b) Perquisite value determined for first tax year in which accommodation was provided multiplied by (x) CII of current tax year/ CII of the first tax year.
- (3) **Employee serving on deputation:** Where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with any body or undertaking under the control of such Government,-
- (i) the employer of such an employee shall be deemed to be that body or undertaking where the employee is serving on deputation; and
 - (ii) the value of perquisite of such an accommodation shall be the amount calculated in accordance with Sl. No.2.(a) of the above table, as if the accommodation is owned by the employer.
- (4) **“Accommodation”** includes a house, flat, farm house or part thereof, or accommodation in a hotel, motel, service apartment, guest house, caravan, mobile home, ship or other floating structure.
- (5) **“Hotel”** includes licensed accommodation in the nature of motel, service apartment or guest house.
- (6) **“First tax year”** means the tax year 2023-24 or the tax year in which the accommodation was provided to the employee, whichever is later.

Meaning of Salary for Valuation Rules

“Salary” includes pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called, from one or more employers, as the case may be. However, it does not include the following, namely–

- (1) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;
- (2) employer’s contribution to the provident fund account of the employee;
- (3) allowances which are exempted from the payment of tax;

- (4) value of the perquisites specified in section 17(1);
- (5) any payment or expenditure specifically excluded under section 17(2);
- (6) lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments.

ILLUSTRATION 9

Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent-free unfurnished accommodation owned by ABC Ltd. in Mumbai. He gives you the following particulars:

Basic salary ₹ 8,500 p.m.

Dearness Allowance ₹ 2,000 p.m. (30% is for retirement benefits)

Bonus ₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2026, he occupied the same only from 1.11.2026. Calculate the taxable value of the perquisite for tax year 2026-27.

SOLUTION

Value of the rent-free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] **[See Note below]**

= 10% of ₹ 53,000 = ₹ 5,300.

Note: Since Mr. C occupies the house only from 1.11.2026, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2026 to 31.03.2027) will be considered.

ILLUSTRATION 10

Using the data given in the previous illustration 9, compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company for the use of this accommodation.

SOLUTION

First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

In this case, 10% of salary would be ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Since 10% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation = ₹ 5,300

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Perquisite value of accommodation given at a concessional rent **₹ 300**

ILLUSTRATION 11

Using the data given in illustration 9, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

SOLUTION

Here again, we have to see whether the accommodation is provided at a concessional rate.

In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). Rent paid by the employer is ₹ 5,125 (i.e. ₹ 1,025 × 5). The lower of the two is ₹ 5,125, which exceeds the rent paid by the employee i.e., ₹ 5,000 (₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation **[Note]** = ₹ 5,125

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Value of accommodation given at a concessional rent **= ₹ 125**

Note: Value of the accommodation is lower of

- (i) Lease rent paid by the company for relevant period = $1,025 \times 5 = ₹ 5,125$
- (ii) 10% of salary for the relevant period (computed earlier) = ₹ 5,300

ILLUSTRATION 12

Using the data given in illustration 9 compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2027. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

SOLUTION

Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 40 lakhs, the accommodation would be deemed to have been provided at a concessional rate, if 10% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). The value of furniture of ₹ 4,625 (**See Note below**) is to be added to 10% of salary. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (computed earlier) = ₹ 5,300

Add: Value of furniture provided by the employer [**Note**] = ₹ 4,625

Value of furnished accommodation = ₹ 9,925

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Value of furnished accommodation given at a concessional rent = ₹ 4,925

Note: Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

ILLUSTRATION 13

Using the data given in illustration 12 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m.

SOLUTION

In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

In this case, ₹ 3,500 (licence fees: ₹ 700 × 5) + ₹ 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (₹ 700 × 5) = ₹ 3,500

Add: Value of furniture provided by the employer (computed earlier) = ₹ 4,625

Value of furnished accommodation = ₹ 8,125

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Perquisite value of furnished accommodation given at concessional rent = ₹ 3,125

Specified Security or Sweat Equity Shares

As per section 17(1)(d), value of any specified security or sweat equity shares allotted or transferred by the current or former employer, free of cost or at concessional rate to the employee is taxable as perquisite under the head "Salaries".

Rule 15(6) prescribes, the fair market value of any specified security or sweat equity share, being an equity share in a company, on the date on which the option is exercised by the employee, shall be determined in the following manner –

Specified security, being an equity share

Valuation of specified security or sweat equity share, being an equity share in a company

- (1) **If shares are listed on recognized stock exchange on the date of the exercising of the option**, - In a case where, on the date of the exercising of the option, the share in the company is listed on a recognized stock exchange, the fair market value shall be the **average of the opening price and closing price of the share on that date** on the said stock exchange.

If shares are listed on more than one recognized stock exchange - Where on the date of exercising of the option, the share is listed on more than one recognized stock exchanges, the fair market value shall be the **average of opening price and closing price** of the share on the recognised stock exchange which records the **highest volume of trading** in the share.

If no trading in share on recognized stock exchange - Where on the date of exercising of the option, there is **no trading** in the share on any recognized stock exchange, the fair market value shall be -

- (a) the **closing price** of the share on any recognised stock exchange on a date closest to the date of exercising of the option and immediately preceding such date; or
- (b) the **closing price** of the share on a recognised stock exchange, which records the **highest volume** of trading in such share, if the closing price, as on the date closest to the date of exercising of the option and immediately preceding such date, is recorded on **more than one recognized stock exchange**.

"Closing price" of a share on a recognised stock exchange on a date shall be the price of the last settlement on such date on such stock exchange.

However, where the stock exchange quotes both "buy" and "sell" prices, the closing price shall be the "sell" price of the last settlement.

"Opening price" of a share on a recognised stock exchange on a date shall be the price of the first settlement on such date on such stock exchange.

However, where the stock exchange quotes both "buy" and "sell" prices, the opening price shall be the "sell" price of the first settlement.

- (2) **If shares are not listed on recognized stock exchange** - In a case where, on the date of exercising of the option, the share in the company is not listed

on a recognised stock exchange, the fair market value shall be such value of the share in the company as determined by a merchant banker on the specified date.

For this purpose, “**specified date**” means -

- (i) the date of exercising of the option; or
- (ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

Note: Where any amount has been recovered from the employee, the same shall be deducted to arrive at the value of perquisites.

ILLUSTRATION 14

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2026. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- (i) *What is the perquisite value of sweat equity shares allotted to Sri Chand?*
- (ii) *In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?*

SOLUTION

- (i) As per section 17(1)(d), the value of sweat equity shares chargeable to tax as perquisite shall be **the fair market value of such shares on the date on which the option is exercised by the assessee** as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

- (ii) As per section 73(1) (Table SI No. 4), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair

market value which has been taken into account for perquisite valuation under section 17(1)(d).

(The provisions of section 73(1) are discussed in Unit 4: Capital Gains of this chapter)

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

Valuation of specified security, not being an equity share in a company

Rule 15(7) prescribes, the fair market value of any specified security, not being an equity share in a company, on the date on which the option is exercised by the employee, shall be such value as determined by a merchant banker on the specified date.

**Specified security,
not being an
equity share**

For this purpose, “**specified date**” means -

- (i) the date of exercising of the option; or
- (ii) any date earlier than the date of the exercising of the option, not being a date which is more than 180 days earlier than the date of the exercising.

Any other benefit or amenity

Section 17(1)(e) provide that the value of any other benefit or amenity as may be prescribed would be included in the definition of perquisite and taxable in the hands of all employees.

Accordingly, Rule 15(5) prescribes the rules for valuation of the following benefits or amenities chargeable to tax in the hands of all employees:-

1.	Interest-free or concessional loan		
	Nature of other benefits or amenities	Value of perquisite	Conditions
	Benefit from the provision of interest-free or concessional loan for any purpose	Sum equal to the interest computed - at the annual rate charged	(a) No value would be charged if such loans are made available

made available to the - employee or - any member of his household during the relevant tax year by the employer or any person on his behalf.	by the State Bank of India, - as on the 1st day of the relevant tax year in respect of loans for the same purpose advanced by it - on the maximum outstanding monthly balance - as reduced - by the interest, if any, actually paid by him or any such member of his household.	- for medical treatment in respect of specified diseases (like cancer, tuberculosis, etc.) or - for an amount not exceeding ₹ 2,00,000 in the aggregate. (b) Where the benefit relates to the loans made available for medical treatment referred to above, the exemption so provided shall not apply to so much of the loan as has been reimbursed to the employee under any medical insurance scheme.
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“Maximum outstanding monthly balance” means the aggregate outstanding balance for each loan as on the last day of each month.

2.	Travelling, touring and accommodation		
	Nature of other benefits or amenities	Value of perquisite	Conditions
	The value of travelling, touring, accommodation and any other expenses paid for or borne or reimbursed by the employer for any holiday availed of by the employee or any member of	Sum equal to the amount of the expenditure incurred by such employer in that behalf.	(a) If Travelling, touring, accommodation etc. facilities are maintained by employer for particular employees only - Where such facility is maintained by the employer, and is not available uniformly to all employees, the value of benefit shall be taken to be the value at which such

	his household, other than leave travel concession or assistance		facilities are offered by other agencies to the public. (b) Expenses on any member of household accompanying such employee on office tour - Where the employee is on official tour and the expenses are incurred in respect of any member of his household accompanying him, the amount of expenditure so incurred shall also be an amenity. (c) If official tour is extended as vacation - However, where any official tour is extended as a vacation, the value of such fringe benefit shall be limited to the expenses incurred in relation to such extended period of stay or vacation. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.
3.	Free or concessional food and non-alcoholic beverages		
	Nature of other benefits or amenities	Value of perquisite	Conditions
	The value of free food and non-alcoholic beverages provided by the employer to an employee shall be	Amount of expenditure incurred by such employer reduced by the amount, if any, paid or recovered from the employee for	Following would not be treated as a perquisite - (1) free food and non-alcoholic beverages provided by such employer - during working hours at office or business premises or - through paid vouchers which

		such benefit or amenity	are not transferable and usable only at eating joints, to the extent the value thereof either case does not exceed ₹ 200 per meal or (2) tea or snacks provided during working hours or (3) free food and non-alcoholic beverages during working hours provided in a remote area or an off-shore installation.
4.	Value of gift, voucher or token in lieu of such gift		
	Nature of other benefits or amenities	Value of perquisite	Conditions
	The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise from the employer	Sum equal to the amount of such gift	If the value of such gift, voucher or token, as the case may be, is below ₹ 15,000 in the aggregate during the tax year, the value of perquisite shall be taken as 'Nil'
5.	Credit card expenses		
	Nature of other benefits or amenities	Value of perquisite	Conditions
	The amount of expenses including membership fees and annual fees	Value of perquisite chargeable to tax as reduced by the amount, if any	Such expenses incurred wholly and exclusively for official purposes would not be treated as a perquisite if the following conditions are fulfilled.

	incurred by the employee or any member of his household, which is charged to a credit card (including any add-on-card) provided by the employer, or otherwise, paid for or reimbursed by such employer	paid or recovered from the employee for such benefit or amenity.	(1) complete details in respect of such expenditure are maintained by the employer which may, <i>inter alia</i>, include the date of expenditure and the nature of expenditure; (2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties.
6.	Club expenditure		
	Nature of other benefits or amenities	Value of perquisite	Conditions
	The value of benefit to the employee resulting from the payment or reimbursement by the employer of any expenditure incurred (including the amount of annual or periodical fee) in a club by him or by a member of his household	Actual amount of expenditure incurred or reimbursed by such employer on that account as reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.	Where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership. Further, if such expenditure is incurred wholly and exclusively for business purposes, it would not be treated as a perquisite provided the following conditions are fulfilled:- (1) complete details in respect of such expenditure are maintained by the employer which may, <i>inter alia</i>, include the date of expenditure, the nature of expenditure and its business expediency;

			(2) the employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for the performance of official duties. (3) use of health club, sports and similar facilities provided uniformly to all employees by the employer.	
7.	Use of movable assets			
	Nature of other benefits or amenities	Value of perquisite	Conditions	
	The value of benefit to the employee resulting from the use by the employee or any member of his household of any movable asset (other than motor car and laptops, computers, tablets and mobile phones) belonging to the employer or hired by him.	10% p.a. of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, as the case may be as reduced by the amount, if any, paid or recovered from the employee for such use.	There would be no perquisite for use of laptops, computers, tablets and mobile phones provide by the employer.	
8.	Transfer of movable assets			
	Nature of other benefits or amenities	Value of perquisite	Conditions	
	The value of benefit to the employee arising	Actual cost of such assets to the employer	Assets transferred	Cost of normal wear and tear would be

	from the transfer of any movable asset belonging to the employer directly or indirectly to the employee or any member of his household.	as reduced by the cost of normal wear and tear and as further reduced by the amount, if any, paid or recovered from the employee being the consideration for such transfer.	Computers and electronic items	@50% on WDV
			Motor cars	@20% on WDV
			Any other asset	@10% on SLM
			Cost of normal wear and tear for each completed year during which such asset was put to use by employer.	
9.	Other benefit or amenity			
	Nature of other benefits or amenities	Value of perquisite	Conditions	
	The value of any other benefit or amenity, service, right or privilege provided by the employer except expenses on telephones including mobile phone	Cost to the employer under an arms' length transaction as reduced by the employee's contribution, if any.		

Payment in respect of an obligation of employee

As per section 17(1)(f), any sum paid by an employer in respect of any obligation which but for such payment, would have been payable by the employee.

EXAMPLE *If a domestic servant is engaged by an employee and the employer reimburses the salary paid to the servant, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. This perquisite will be taxable in the hands of all employees.*

Assurance on the life of the assessee

Section 17(1)(g) provide that any sum payable by an employer directly or indirectly

- ♦ to effect an assurance on the life of the assessee or
- ♦ to effect a contract for an annuity,
- ♦ other than payment made to RPF or approved superannuation fund or deposit-linked insurance fund¹¹,

shall be chargeable as a perquisite in the hands of the employee.

However, there are schemes like group annuity scheme, employees state insurance scheme and fidelity insurance scheme, under which insurance premium is paid by employer on behalf of the employees. Such payments are not regarded as perquisite in view of the fact that the employees have only an expectancy of the benefit in such schemes.

Contribution to RPF, NPS and Superannuation Fund

As per section section 17(1)(h), aggregate amount of any contribution made

- ♦ in a recognised provident fund;
- ♦ in NPS;
- ♦ in an approved superannuation fund

by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 shall be chargeable as a perquisite in the hands of employee.

Interest credited on Employer's contribution to RPF, NPS and Superannuation Fund

As per section 17(1)(i), any annual accretion by way of interest, dividend or any other amount of similar nature during the tax year to the balance at the credit of the

- ♦ recognized provident fund or
- ♦ NPS or
- ♦ approved superannuation fund

¹¹ established under the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 or Employees' Provident Fund and Miscellaneous Provisions Act, 1952

to the extent it relates to the employer's contribution which is included in total income in any tax year (on account of the same having exceeded ₹ 7,50,000) under section 17(1)(h) computed in prescribed manner, shall be treated as a perquisite.

Accordingly, Rule 16 prescribes the following manner to compute the annual accretion by way of interest, dividend or any other amount of similar nature during the tax year-

$$TP = (PC/2)*R + (PC1 + TP1)*R$$

Where,

TP	Taxable perquisite under section 17(1)(i) for the current tax year
PC	Aggregate amount of employer's contribution in excess of ₹ 7.5 lakh to RPF, NPS and approved superannuation fund during the tax year
PC1	Aggregate amount of employer's contribution in excess of ₹ 7.5 lakh to RPF, NPS and approved superannuation fund for the tax year or years commencing on or after 1 st April, 2020 other than the current tax year
TP1	Aggregate of taxable perquisite under section 17(1)(i) for the tax year or years commencing on or after 1 st April, 2020 other than the current tax year
R	I/ F(avg)
I	Aggregate amount of income accrued during the current tax year in RPF, NPS and approved superannuation fund
F(avg)	(Aggregate amount of balance to the credit of RPF, NPS and approved superannuation fund on first day of the current tax year (+) Aggregate amount of balance to the credit of RPF, NPS and approved superannuation fund on last day of the current tax year)/2

Where aggregate amount of TP1 and PC1 exceeds the aggregate amount of balance to the credit of the specified fund or scheme on the first day of the current tax year, then, the excess amount shall be ignored for the purpose of computing the aggregate of TP1 and PC1.

ILLUSTRATION 15

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2024. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 31.3.2026 and 31.3.2027 is

₹ 27,43,048 and ₹ 46,48,555, respectively. Taxable perquisite under section 17(1)(i)¹² for the tax year 2025-26 is ₹ 1,532. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(1)(h) and 17(1)(i) for the tax year 2026-27. Prior to 1.9.2024, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

SOLUTION

Computation of perquisite value taxable u/s 17(1)(h) and 17(1)(i) for tax year 2026-27

1. Perquisite value taxable u/s 17(1)(h) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the tax year 2026-27 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(1)(i) = Annual accretion on perquisite taxable u/s 17(1)(i) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
 $= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$

PC	ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during tax year 2026-27 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in tax year 2025-26 = ₹ 27,600
TP1	Taxable perquisite under section 17(1)(i) for the tax year 2025-26 = ₹ 1,532
R	$I/F(\text{avg}) = ₹ 3,50,307 / ₹ 36,95,802 = 0.09479$
I	RPF balance as on 31.3.2027 – employee's and employer's contribution during the year – RPF balance as on 1.4.2026 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048 (op. bal.))
F(avg)	Balance to the credit of recognized provident fund as on 1st April, 2026 + Balance to the credit of recognized provident fund as on 31st March, 2027)/2 = $(₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802$

¹² Erstwhile section 17(2)(vii)

Note – Interest on aggregate of Employee's contribution exceeding ₹2,50,000 during tax year 2024-25, 2025-26 and 2026-27 will also be chargeable to tax during tax year 2026-27.

Exemption in respect of payment from approved superannuation funds [Schedule II Table Sl. No. 8]

Any payment received by any employee from an approved superannuation fund shall be entirely exempted if the payment is made

- (a) on the death of a beneficiary.
- (b) to an employee in lieu or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
- (c) by way of refund of contribution on the death of a beneficiary; or
- (d) by way of refund of contribution to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or his becoming incapacitated prior to such retirement, to the extent the payment made does not exceed the contribution made prior to 1-4-2026 and the interest thereon.
- (e) by way of transfer to the NPS account of the employee.

Perquisites taxable only in the hands of specified employees

Any monetary obligation of the employee which is discharged by the employer is perquisite in the hands of all employees as per section 17(1)(f). However, sometimes instead of discharging employees' obligation, employer provides perquisites in the form of facility to the employee. The following are examples of such services:

- (i) Provision of sweeper, gardener, watchman or personal attendant
- (ii) Facility of use of gas, electricity or water supplied by employer
- (iii) Free or concessional tickets
- (iv) Use of motor car
- (v) Free or concessional educational facilities

Such facilities and benefits are taxable only in the hands of employees specified under section 17(1)(c).

Section 17(1)(c) provides that the value of any benefit or amenity granted or provided free of cost or at concessional rate -

- (i) by a company to a director employee or an employee who has a substantial interest in the company
- (ii) by any employer (including a company) to an employee [other than employee referred in sub-clause (i)] whose income under the head "Salaries" by way of monetary payment (from one or more employers) exceeds such amount as may be prescribed.

would be taxable as perquisite.

For ease of reference, these employees are referred as "Specified Employees".

For the purpose of this clause, Rule 17 prescribes the amount of ₹ 4,00,000 as the limit of salary for this purpose. The above salary is to be considered exclusive of the value of all benefits or amenities not provided by way of monetary payments.

For computing the prescribed amount, the following items have to be excluded or deducted:

(a)	all non-monetary benefits;
(b)	monetary benefits which are exempt under schedule III. This is because the exemptions provided under schedule III are excluded completely from salaries.
(c)	Deductions under section 19

If an employee is employed with more than one employer, the aggregate of the salary received from all employers is to be taken into account in determining the prescribed limit i.e., Salary for this purpose = Basic Salary + Dearness Allowance + Commission, whether payable monthly or turnover based + Bonus + Fees + Any other taxable payment + Any taxable allowances + Any other monetary benefits – Deductions under section 19]



It is immaterial whether he is a full-time director or part-time director. It also does not matter whether he is a nominee of the management, workers, financial institutions or the Government. It is also not material whether or not he is a director throughout the tax year.

A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power in the company.

Beneficial and legal ownership: In order to determine whether a person has a substantial interest in a company, it is the beneficial ownership of equity shares carrying 20% or more of the voting power that is relevant rather than the legal ownership.



A, Karta of a HUF, is a registered shareholder of Bright Ltd. The amount for purchasing the shares is financed by the HUF. The dividend is also received by the HUF. Supposing further that A is an employee in Bright Ltd., the question arises whether he is a specified employee.

In this case, he cannot be called a specified person since he has no beneficial interest in the shares registered in his name. It is only for the purpose of satisfying the statutory requirements that the shares are registered in the name of A. All the benefits arising from the shareholding goes to the HUF. Conversely, it may be noted that an employee who is not a registered shareholder will be considered as a specified employee if he has beneficial interest in 20% or more of the equity shares in the company.

The value of such facilities and amenities are provided in Rule 15(3) & 15(4)

Valuation of Motor Car

As per Rule 15(3), the value of motor car used by an employee provided by an employer shall be determined in the following manner:

Value of Perquisite per Calendar Month

Sl. No.	Circumstances	Where cubic capacity of engine does not exceed 1.6 litres or the motor car is an electric vehicle	Where cubic capacity of engine exceeds 1.6 litres
(1)	(2)	(3)	(4)
(1)	Where the motor car is owned or hired by the employer and –		
	<u>(a) is used wholly and exclusively in the performance of his official duties</u>		
		Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.	

<u>(b) is used exclusively for the private or personal purposes of the employee or any member of his household</u>		
Running and maintenance expenses are met or reimbursed by the employer	Actual amount of expenditure incurred by the employer on the running and maintenance of motor car during the relevant tax year including remuneration, if any, paid by the employer to the chauffeur as increased normal wear and tear of the motor car (or hire charges if taken on hire) and as reduced by any amount charged from the employee for such use.	
<u>(c) is used partly in the performance of duties and partly for private or personal purposes</u> of his own or any member of his household and-		
(i) the expenses on maintenance and running are met or reimbursed by the employer	₹ 5,000 (plus ₹ 3,000, if chauffeur is also provided to run the motor car)	₹ 7,000 (plus ₹ 3,000, if chauffeur is also provided to run the motor car)
(ii) the expenses on running and maintenance for private or personal use are fully met by the employee	₹ 2,000 (plus ₹ 3,000, if chauffeur is also provided by the employer to run the motor car)	₹ 3,000 (plus ₹ 3,000, if chauffeur is also provided by the employer to run the motor car)
(2) <u>Where the employee owns a motor car but the actual running and maintenance charges (including remuneration of the chauffeur, if any) are met or reimbursed to him by the employer and –</u>		
(a) such reimbursement is <u>for the use of the vehicle wholly and exclusively for official purposes</u>	Not a perquisite, provided the documents specified in Note (2) below the table are maintained by the employer.	
(b) such reimbursement is <u>for the use of the vehicle partly for</u>	The actual amount of expenditure incurred by the employer less ₹ 5,000 (plus ₹ 3,000,	The actual amount of expenditure incurred by the employer less ₹ 7,000 (plus ₹ 3,000, if

	<u>official purposes and partly for personal or private purposes</u> of the employee or any member of his household.	if chauffeur is also provided by employer) (Also conditions in note (2) below this table are met).	chauffeur is also provided by employer) (Also conditions in note (2) below this table are met).
(3)	Where the employee owns any other automotive conveyance, but the actual running and maintenance charges are met or reimbursed to him by the employer and		
	(a) such reimbursement is <u>for the use of the vehicle wholly and exclusively for official purposes</u>	Not a perquisite, provided the documents specified in the note (2) below the table are maintained by the employer.	Not applicable.
	(b) such reimbursement is <u>for the use of vehicle partly for official purposes and partly for personal or private purposes</u> of the employee	The actual amount of expenditure incurred by the employer as reduced by the amount of ₹ 3,000. (Also conditions in note (2) below this table are met).	

Notes:

(1) Where more than one motor car is provided - Where an employer owns or hires one or more motor cars and allowed the employee or any member of his household to the use then for the purposes other than wholly and exclusively in the performance of his duties, the value of perquisite shall be the amount calculated for

- one car - ₹ 5,000/₹ 7,000 (plus ₹ 3,000, if chauffeur is also provided to run the motor car)
- other cars - **Actual amount of expenditure incurred by the employer** on the running and maintenance of motor car during the relevant tax

year including remuneration, if any, paid by the employer to the **chauffeur** as increased **normal wear and tear** of the motor car and as **reduced by any amount charged** from the employee for such use.

- (2) **Documents to be maintained in certain cases** - Where the employer or the employee claims that the motor-car is used solely for official duties or that the actual expenses on the running and maintenance of the motor-car owned by the employee for official purposes is more than the amounts deductible in Sl. No. 2(b) or 3(b) of the above table, he may claim a higher amount for such official use and the value of perquisite in such a case shall be

the actual amount of expenses paid or reimbursed by the employer as reduced by such higher amount attributable to official use of the vehicle provided that the following conditions are fulfilled :-

- (a) the employer has maintained complete details of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon and
- (b) the employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

- (3) **Meaning of Normal wear and tear of a motor car** - For computing the perquisite value of motor car, the normal wear and tear of a motor car shall be taken at 10% per annum of the actual cost of the motor car or cars.

Valuation of other benefits

The value of any benefit provided by the employer to the employee or to any member of his household for goods, services or utilities shall be determined in accordance with **Rule 15(4)**.

SI No.	Nature of goods, services or utilities	Value of benefit of the goods, services or utilities provided
1	Services of a sweeper, a gardener, a watchman or a personal attendant	The total amount of salary paid or payable by employer/ any other person on his behalf for the services as reduced by any amount paid by the employee for such services.
2(a)	Supply of gas, electric energy or water for	The amount paid by the employer to the supplying agency as reduced by any

	consumption of employee's household by purchasing them from any outside agency	amount paid by the employee for such services.
2(b)	Supply of gas, electric energy or water for consumption of employee's household made from resources owned by the employer, without purchasing them from any outside agency	The amount of manufacturing cost per unit incurred by the employer as reduced by any amount paid by the employee for such services.
3(a)	Provision of free or concessional educational facilities for any member of the employee's household	The amount of expenditure incurred by the employer as reduced by any amount paid or recovered from the employee on that account.
3(b)	Provision of free or concessional educational facilities for any member of the employee's household, where the educational institution is maintained and owned by the employer	Cost of such education in a similar institution in or near the locality as reduced by any amount paid or recovered from the employee on that account, where the cost of such education or value of benefit per child exceeds ₹ 3,000 per month. Note that the exemption of ₹ 3,000 p.m. is provided in case of educational facility provided to children of employee and not in case of other household members.
3(c)	Provision of free educational facilities for any member of the employee's household in any other educational institution by reason of his employment	Cost of such education in a similar institution in or near the locality as reduced by any amount paid or recovered from the employee on that account., where the cost of such education or value of benefit per child exceeds ₹ 3,000 per month. Note that the exemption of ₹ 3,000 p.m. is provided in case of educational facility provided to children of employee and not in case of other household members.

4	Provision by an employer engaged in carriage of goods/passengers to any employee or member of his household (other than railway or airline employee) the facility of free/at concessional fare personal/private journey for transport of passengers/goods in any conveyance owned, leased or otherwise made available by the employer	Value at which such benefit/ amenity is offered by the employer to public as reduced by any amount paid or recovered from the employee on that account.
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Definitions for the purpose of perquisite rules -

The following definitions are relevant for applying the perquisite valuation rules -

Term	Meaning
Member of household	shall include- (a) spouse(s), (b) children and their spouses, (c) parents, and (d) servants and dependants;
Salary	includes the pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called from one or more employers, as the case may be, but does not include the following, namely:- (a) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned; (b) employer's contribution to the provident fund account of the employee; (c) allowances which are exempted from payment of tax; (d) the value of perquisites specified in section 17(1) of the Income-tax Act; (e) any payment or expenditure specifically excluded under section 17(2);

	(f) lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and similar payments;
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Tax free perquisites

As per section 17(2), certain benefits such as medical treatment expenses, health insurance premium, expenditure on vehicle for journey from residence to office etc. would not be considered as perquisite and thus not taxable. Let's understand these benefits:

- (i) **Value of medical treatment in any hospital maintained by the employer:**
The value of any medical treatment provided to an employee or any member of his family in any hospital maintained by the employer;
- (ii) **Reimbursement of expenditure actually incurred on medical treatment:**
Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family
 - **in any hospital** maintained by the Government/local authority/any other hospital approved by the Government for the purpose of medical treatment of its employees.
 - **in respect of the prescribed disease** or ailments in any hospital approved by the Principal Chief Commissioner or Chief Commissioner having regard to the prescribed guidelines.
- (iii) **Premium paid by the employer towards health insurance of an employee:**
Any premium paid by an employer in relation to health insurance of an employee under a scheme approved by the Central Government or the Insurance Regulatory Development Authority (IRDA).
- (iv) **Reimbursement of health insurance premium paid by employee:**
Reimbursement of health insurance premium which is paid by the employee for himself or on the health of any member of his family under a scheme approved by the Central Government or the Insurance Regulatory Development Authority (IRDA).

(v) **Amount paid by the employer or reimbursement by the employer towards expenditure incurred outside India on medical treatment:**

Any expenditure incurred by the employer or any sum paid by the employer on any expenditure actually incurred by the employee on the following:

- (a) **medical treatment** of the employee or any member of the family of such employee outside India;
- (b) **travel and stay abroad** of the employee or any member of the family of such employee for medical treatment;
- (c) **travel and stay abroad of one attendant** who accompanies the patient in connection with such treatment.

Conditions [section 17(3)]:

1. The perquisite element in respect of expenditure on medical treatment and stay abroad will be exempt only to the extent permitted by the RBI.
2. The expenses in respect of **traveling** of the patient and the attendant will be exempt if the employee's gross total income as computed before including the said expenditure **does not exceed ₹ 8,00,000, being the limit prescribed under Rule 19.**

Family means spouse and children of the individual. Children may be dependent or independent, married or unmarried. It also includes parents, brothers and sisters of the individual if they are wholly or mainly dependent upon him.



Hospital includes a dispensary or a clinic or a nursing home.

- (vi) **Expenditure incurred on vehicle provided to an employee:** Any expenditure incurred by the employer for the use of any vehicle for journey by the assessee from his residence to his office or other place of work, or from such office or place to his residence.

Payment of premium on personal accident insurance policies

If an employer takes personal accident insurance policies on the life of employees and pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place.

Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not constitute a taxable perquisite in the employees' hands¹³.

ILLUSTRATION 16

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the tax year 2026-27:

<i>Medical premium paid for insuring health of Mr. G</i>	<i>₹ 7,000</i>
<i>Treatment of Mr. G by his family doctor</i>	<i>₹ 5,000</i>
<i>Treatment of Mrs. G in a Government hospital</i>	<i>₹ 25,000</i>
<i>Treatment of Mr. G's grandfather in a private clinic</i>	<i>₹ 12,000</i>
<i>Treatment of Mr. G's mother (68 years and dependant) by family doctor</i>	<i>₹ 8,000</i>
<i>Treatment of Mr. G's sister (dependant) in a nursing home</i>	<i>₹ 3,000</i>
<i>Treatment of Mr. G's brother (independent)</i>	<i>₹ 6,000</i>
<i>Treatment of Mr. G's father (75 years and dependent) abroad</i>	<i>₹ 50,000</i>
<i>Expenses of staying abroad of the patient</i>	<i>₹ 30,000</i>
<i>Limit specified by RBI</i>	<i>₹ 75,000</i>

SOLUTION

Computation of taxable value of perquisite in the hands of Mr. G

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		Nil
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		Nil
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by family doctor		8,000

¹³CIT vs. Lala Shri Dhar [1972] 84 ITR 19 (Del.)

Treatment of Mr. G's sister (dependent) in a nursing home	3,000
Treatment of Mr. G's grandfather in a private clinic	12,000
Treatment of Mr. G's brother (independent)	6,000
Taxable value of perquisite	39,000

Other Tax-Free Perquisites

The following perquisites are exempt from tax in the hands of all employees.

Amount spent on training of employees	Amount spent by the employer on training of employees or amount paid for refresher management course including expenses on boarding and lodging;
Leave travel concession	Leave travel concession if the assessee exercises the option under section 202(4) of shifting out of the default tax regime, subject to the conditions specified under schedule III (Table SI No. 8) (discussed below)
Note: Value of Leave travel concession provided to the High Court judge, or the Supreme Court Judge and members of his family are completely exempt without any conditions if they exercise the option under section 202(4) of shifting out of the default tax regime. [As per section 22A (2) of the High Court Judges(Conditions of Service) Act,1954 and section 23(1A) of the Supreme Court Judges (salaries and Conditions of Services) Act,1958]	
Rent-free official residence	Rent-free official residence provided to a Judge of a High Court or the Supreme Court if they exercise the option under section 202(4) of shifting out of the default tax regime;
Conveyance facility	Conveyance facility provided to High Court Judges under section 22B of the High Court Judges (Conditions of Service) Act, 1954 and Supreme Court Judges under section 23A of the Supreme Court Judges (Conditions of Service) Act, 1958 if they exercise the option under section 202(4) of shifting out of the default tax regime.

Leave travel concession

Leave Travel Concession (LTC) is a benefit provided by employers to employees to encourage them to take leave and travel with their family. When an employee goes on vacation within India and incurs expenses on travel (like air, rail, or bus fare), the employer may reimburse these expenses as LTC. As per Schedule III (Table Sl. No. 8), the value of travel concession provided to an employee would be exempt subject to the following conditions:

- (a) **Amount towards travel to India Only:** Such sum is received from his employer from his employer or former employer for himself and his family in connection with his proceeding
- (i) **on leave** to any place in India
 - (ii) to any place in India after retirement from service or after the termination of his service

Family means

- spouse and children of the individual and
- parents, brothers and sisters of the individual or any of them wholly or mainly dependent on the individual.

- (b) **Subject to Prescribed Conditions:** Such sum is subject to such conditions as may be prescribed (including conditions as to number of journeys and the amount exempt per head);
- (c) **Alignment with Central Government Rules:** The conditions in clause (b) shall have regard to the travel concession or assistance granted to the employees of the Central Government; and
- (d) **Restriction to Actual Expenditure:** Amount exempted should not exceed the amount of expenses actually incurred for the purpose of such travel.

Prescribed Conditions [Rule 278]: Amount exempted as per Schedule III (Table Sl. No. 8) would be subjected to the following conditions:

- (i) **Monetary Limits:** Amount actually incurred would be exempt subject to the following monetary limits:

S.No.	Journey performed by		Limit
1	Air		Amount not exceeding the fare admissible for the class of travel to which the employee is entitled by the shortest route to the place of destination.
2	Any other mode:		
	(i)	Where rail service is available	Amount not exceeding the air-conditioned first class rail fare by the shortest route to the place of destination
	(ii)	Where rail service is not available and	
		(a) a recognised public transport system exists	amount not exceeding the 1st class or deluxe class fare, as the case may be, on such transport by the shortest route to the place of destination
		(b) no recognised public transport system exists and no specific rates have been prescribed by the Directorate of transport	Amount calculated at the rate of ₹30 per kilometre for the distance of the journey by the shortest route shall be admissible

- (ii) Exemption will be available in respect of 2 journeys performed in a block of 4 calendar years commencing from the calendar year 2022.

Where such travel concession or assistance is not availed by the individual during any block of 4 calendar years, one such unavailed LTC (must be availed in the first calendar year of next block) will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption.



An employee does not avail any LTC for the block 2022-25. He is allowed to carry forward maximum one unavailed LTC to be used in the succeeding block of 2026-29. Accordingly, if he avails LTC in April 2026, the same will be treated as having availed in respect of the block 2022-25. Therefore, he will be eligible for exemption in respect of that journey and two more journeys can be further availed in respect of the block of 2026-29.

Note: The exemption referred to shall not be available to more than two surviving children of an individual after 30.09.1998. This restrictive condition shall not apply in respect of children born before 1.10.1998 and also in case of multiple births after one child.

Exemption in respect of leave travel concession under [Schedule III \(Table Sl. No. 8\)](#) would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.



ILLUSTRATION 17

Mr. D went on a holiday on 25.12.2026 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option under section 202(4) of shifting out of the default tax regime.

SOLUTION

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option under section 202(4) of shifting out of the default tax regime.

ILLUSTRATION 18

In the above illustration 17, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

SOLUTION

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children.

$$\text{Taxable LTC} = 15,000 \times \frac{1}{3} = ₹ 5,000.$$

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

ILLUSTRATION 19

Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

- (i) *For Mr. X, who engaged a domestic servant for ₹ 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. ₹ 500 per month.*
- (ii) *For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.*

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.

SOLUTION

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(1)(f) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(1)(c). Hence, there is no perquisite element in the hands of Mr. Y.

ILLUSTRATION 20

Mr. X retired from the services of M/s Y Ltd. on 31.01.2027, after completing service of 30 years and one month. He had joined the company on 1.1.1997 at the age of 30 years and received the following on his retirement:

- (i) *Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.*
- (ii) *Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.*

- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2024 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 14,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2026 to 31.01.2027.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2027 to 31.03.2027 after commutation of pension.

Compute his taxable salary from the above for tax Year 2026-27 assuming he exercises the option under section 202(4) of shifting out of the default tax regime

SOLUTION

Computation of Taxable Salary of Mr. X for T.Y. 2026-27

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gratuity	6,00,000
Leave Salary	3,30,000
Pension	
- Uncommuted Pension (5,000 x 2)	10,000
- Commuted Pension	<u>3,00,000</u>
	3,10,000
Gift Voucher [Not taxable, since value does not exceed ₹ 15,000]	-
Transfer of car (See Note - 1)	56,000
Gross Salary	15,96,000
Less: Deduction under section 19(1)	
- Standard Deduction	50,000

- Gratuity (See Note - 2)	5,19,231	
- Leave encashment (See Note - 3)	2,00,000	
- Commuted pension (See Note - 4)	1,50,000	9,19,231
Taxable Salary		6,76,769

Notes:

- (1) **Perquisite value of transfer of car:** As per Rule 15(5)(a), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2024)	5,00,000
Less: Depreciation @20%	1,00,000
WDV on 29.1.2025	4,00,000
Less: Depreciation @20%	80,000
WDV on 29.1.2026	3,20,000
Less: Depreciation @20%	64,000
WDV on 29.1.2027	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	56,000

The rate of 15% as well as the straight-line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

- (2) **Deduction in respect of gratuity**

Particulars	₹
Deduction in respect of gratuity shall be least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity = ₹ 6,00,000	

(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$ $15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
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Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under the Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of deduction.

(3) Deduction in respect of leave salary

Particulars	₹
Deduction in respect of leave salary shall be Least of the following:	
(i) Notified limit ₹ 25,00,000	
(ii) Actual leave salary ₹ 3,30,000	
(iii) 10 months $\times ₹ 20,000$ ₹ 2,00,000	
(iv) Cash equivalent of leave to his credit ₹ 3,30,000	
$3,30,000 \times \frac{330}{330}$	2,00,000

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 19(1) (Table SI No. 14) in respect of leave encashment would be ₹ 3,00,000 (i.e. $10 \times ₹ 30,000$) and hence the deduction in respect of leave encashment would be ₹ 300,000, being the least of all limits.

In such a case, the taxable salary income would be ₹ 5,76,769.

(4) Deduction in respect of Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, deduction under section 19(1) (Table SI No.8) would be available to the extent of $1/3^{\text{rd}}$ of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount of deduction shall be $= \frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$	1,50,000

- (5) The taxability provisions under section 92(22)(m) are not attracted in respect of television received from colleagues, since television is not included in the definition of 'property' therein.

ILLUSTRATION 21

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2026-27:

- (i) *Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).*

In case the company has employed the domestic servant, what is the value of perquisite?

- (ii) *Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 2,900 per month and for Ashok at ₹ 3,200 per month. No amount was recovered by the company for such education facility from Bala.*
- (iii) *The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.*
- (iv) *A gift voucher worth ₹ 20,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.*
- (v) *Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 and mobile phone bill ₹ 25,200 paid by the employer. Both telephone and mobile phone provided by employer were both for personal and official purpose.*
- (vi) *Housing loan @ 6% per annum. Amount outstanding on 31.3.2026 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal on 1st of each month.*

Compute the chargeable perquisite in the hands of Mr. Bala for the tax year 2026-27.

The lending rate of State Bank of India as on 1.4.2026 for housing loan may be taken as 10%.

SOLUTION

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- (i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

- (ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 3,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 3,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 3,000 per month. The taxable perquisite value would be ₹ 38,400 (₹ 3,200 p.m. × 12).

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

- (iv) As per Rule 15(5)(a), if the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 15,000 in aggregate during the tax year, the value of such perquisite will be nil. In this case, the amount was received on the occasion of marriage anniversary and the sum is ₹ 15,000 or more.

Therefore, the entire amount of ₹ 20,000 is liable to tax as perquisite.

- (v) Telephone provided at the residence of the employee and mobile phone provided by the employer who made payment of both the bills, are tax-free perquisites.
- (vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant tax year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant tax year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2026	5,88,000	1,960
May, 2026	5,76,000	1,920
June, 2026	5,64,000	1,880
July, 2026	5,52,000	1,840
August, 2026	5,40,000	1,800
September, 2026	5,28,000	1,760
October, 2026	5,16,000	1,720
November, 2026	5,04,000	1,680
December, 2026	4,92,000	1,640

January, 2027	4,80,000	1,600
February, 2027	4,68,000	1,560
March, 2027	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite

= ₹ 1,08,280 [i.e. ₹ 18,000 + ₹ 38,400 + ₹ 11,000 + ₹ 20,000 + ₹ 20,880].

ILLUSTRATION 22

X Ltd. provided the following perquisites to its employee Mr. Y for the tax year 2026-27 –

- (1) *Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.*
- (2) *Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.*
- (3) *A car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.*
- (4) *A gift voucher of ₹ 20,000 on his birthday.*

Compute the value of perquisites chargeable to tax for the tax year 2026-27, assuming his salary for perquisite valuation to be ₹ 10 lakh.

SOLUTION

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the tax year 2026-27

	Particulars	Amount in ₹		
(1)	Value of accommodation at concessional rate			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000	1,00,000		
	Lower of the above		1,00,000	
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		60,000	
			40,000	

	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y ($\text{₹ } 3,000 \times 12$)	36,000	76,000
(2)	Perquisite value of car owned by X Ltd. and provided to Mr. Y for his personal and official use [$(\text{₹ } 5,000 + \text{₹ } 3,000) \times 12$]		96,000
(3)	Value of gift voucher		20,000
	Value of perquisites chargeable to tax		1,92,000



10.	<i>Ms. Kavya Sharma's employer provided free education facility to her daughter in a school maintained by the employer. The cost of education in a similar institution is ₹ 2,800 p.m. No amount is recovered from the employee. The taxable value of perquisite would be –</i>
(a)	Nil
(b)	₹ 2,800 p.m.
(c)	₹ 33,600 p.a.
(d)	₹ 15,000 p.a.
11.	<i>Mr. Sameer Verma was provided with a telephone connection and mobile phone by his employer. The employer paid aggregate bills of ₹ 48,000 for both official and personal use. The taxable value of perquisite would be –</i>
(a)	₹ 48,000
(b)	₹ 24,000
(c)	Nil
(d)	₹ 15,000
12.	<i>If the domestic servant is employed directly by the employer and provided to the employee, the perquisite would be taxable –</i>
(a)	In all cases
(b)	Only in the case of specified employees
(c)	Only for Government employees
(d)	Only if salary exceeds ₹10 lakh

1.3.3 Profits in lieu of salary [Section 18]

Profits in lieu of salary" includes -

1. (a) **Compensation on account of termination of his employment or modification of the terms and conditions of employment:** Any compensation due to, or received by, an assessee from his employer or former employer at or in connection with the -

- (i) termination of his employment or
- (ii) modification of the terms and conditions

Note: It is to be noted that merely because a payment is made by an employer to a person who is his employee does not automatically fall within the scope of the above provisions. The payment must be arising due to master-servant relationship between the payer and the payee. If it is not on that account, but due to considerations totally unconnected with employment, such payment would not be profit in lieu of salary.

- (b) **Compensation before joining or after cessation of employment:** any amount due to, or received, whether in lump sum or otherwise, by any assessee from any person -

- (i) before his joining any employment with that person; or
- (ii) after cessation of his employment with that person;

- (c) any payment due to or received by an assessee

- (i) from an employer or a former employer; or
- (ii) from a provident or other fund **other than employee contribution or interest on such contribution**; or
- (iii) Any sum received by the assessee under **Keyman Insurance Policy** including sum allocated by way of bonus on such policy.

Keyman insurance policy means a life insurance policy -

- (i) taken by a person on the life of another person
- (ii) such person is or was the employee of the first-mentioned person or is or was connected in any manner with the business of the first-mentioned person; and

- (iii) includes such policy which has been assigned to a person at any time during the term of the policy, with or without any consideration
 - (2) The payment referred in sub-section (1)(c) shall not include the following payments:
 - (a) from provident fund, accumulated balance payable to employee from recognized provident fund and payment from approved superannuation fund as referred in Schedule II (Table: Sl. No. 3, 8 & 4).
 - (b) house rent allowance mentioned under Schedule III (Table: Sl. No. 11).
- With respect to compensations, deduction under section 19 are available which we will be discussing in later part of this unit.

Retrenchment compensation

The retrenchment compensation means the compensation paid under the Industrial Disputes Act, 1947¹⁴ or under any Act, Rule, Order or Notification issued under any law. It also includes compensation paid under any standing orders or any award, contract of service etc.

It may be noted that compensation on account of termination and due to modification in terms and conditions of employment would be taxable as "profits in lieu of salary". Against such retrenchment compensation least of the following would be allowed as deduction under section 19(1) (Table SI No. 10) as follows:

- (a) Compensation received
- (b) Amount calculated in accordance with the provisions of section 25F(b) Industrial Disputes Act, 1947¹⁵ i.e., 15 days average pay x completed years of continuous service or part thereof in excess of 6 months
- (c) An amount, as may be notified by the Central Government i.e., ₹ 5,00,000.



1. The above limits will not be applicable to cases where the compensation is paid under any scheme approved by the Central Government for giving special protection to workmen under certain circumstances. In such cases, the

¹⁴ Now, section 70 of Industrial Relations Code, 2020

¹⁵ Now, section 70 of the Industrial Relations Code, 2020

entire compensation received is allowed as deduction under section 19(1) (Table SI No. 11).

2. Average pay means average of the wages payable to a workman
- in the case of monthly paid workman, in the three complete calendar months,
 - in the case of weekly paid workman, in the four calendar weeks,
 - in the case of daily paid workman, in the twelve full working weeks,

preceding the date on which the average pay becomes payable if the workman had worked for three complete calendar months or four complete weeks or twelve full working days, as the case may be, and where such calculation cannot be made, the average pay shall be calculated as the average of the wages payable to a workman during the period he actually worked.

3. Wages for this purpose means all remuneration capable of being expressed in terms of money, which would, if the terms of employment, expressed or implied, were fulfilled, be payable to a workman in respect of his employment or of work done in such employment, and includes

- such allowances including DA as the workman is for the time being entitled to;
- the value of any house accommodation, or of supply of light, water, medical attendance or other amenity or of any other service or of any concessional supply of food grains or other articles;
- any travel concession; and
- any commission payable on the promotion of sales or business or both

However, it does not include

- any bonus;
- contribution to a retirement benefit scheme;
- any gratuity payable on the termination of his service.

4. Deduction under section 19(1) (Table SI No. 10 & 11) would be available to an assessee irrespective of the regime under which he pays tax.

Voluntary Retirement Receipts

Lump sum payment or otherwise received by an employee at the time of voluntary retirement would be taxable as "profits in lieu of salary". Deduction would be allowed under section 19(1) (Table SI No. 12), subject to the following conditions:

Eligible Undertakings - The employees of the following undertakings are eligible for exemption under this clause:

- (i) Public sector company
- (ii) Any other company
- (iii) An authority established under a Central/State or Provincial Act
- (iv) A local authority
- (v) A co-operative society
- (vi) An University established or incorporated under a Central/State or Provincial Act and an Institution declared to be an University by the University Grants Commission
- (vii) An Indian Institute of Technology
- (viii) Such Institute of Management as the Central Government may, by notification in the Official Gazette, specify in this behalf
- (ix) Any State Government
- (x) The Central Government
- (xi) An institution, having importance throughout India or in any State or States, as the Central Government may specify by notification in the Official Gazette.

Limit: The maximum limit of deduction should not exceed ₹ 5 lakh.

Such compensation should be at the time of his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or, in the case of public sector company, a scheme of voluntary separation. The deduction will be available even if such compensation is received in instalments.

Guidelines:

The schemes should be framed in accordance with such guidelines, as may be prescribed and should include the criteria of economic viability.

Rule 20 prescribes that the deduction under this section would be available to an employee who has completed 10 years of service or completed 40 years of age. However, this requirement is not applicable in case of an employee of a public sector company under the scheme of voluntary separation framed by the company.

The amount receivable on account of voluntary retirement or separation of the employee **must not exceed either A or B –**

$$A = 3 \times N \times S$$

$$B = M \times S$$

N = Number of completed years of service

M = Balance months of service left before the date of his retirement on superannuation

S = Salary at the time of retirement

- ♦ Where any relief has been allowed to any assessee u/s 157 for any tax year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no deduction u/s 19(1) (Table SI No. 12) shall be allowed to him in relation to that tax year or any other tax year.
- ♦ Where deduction for voluntary retirement compensation under the said section has been allowed in respect of any tax year, then no deduction thereunder shall be allowed to him in any other tax year.
- ♦ **“Salary”** for this purpose means basic salary, dearness allowance, if provided in the terms of employment for retirement benefits, forming part of salary, commission which is expressed as a fixed percentage of turnover and excludes all other allowances and perquisites.
- ♦ Deduction under section 19(1) Table SI No. 12 would be available to an assessee irrespective of the regime under which he pays tax.



ILLUSTRATION 23

Mr. Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which

forms part of pay) ₹ 5,000 p.m. Compute deduction in respect of voluntary retirement compensation, assuming that he does not claim any relief under section 157.

SOLUTION

Deduction in respect of voluntary retirement compensation would be allowed to the extent of least of the following:

- | | | |
|-------|--|---------------|
| (i) | Compensation actually received | = ₹ 7,00,000 |
| (ii) | Statutory limit | = ₹ 5,00,000 |
| (iii) | A = 3 x N i.e., No. of completed year of service x S
i.e., Salary at the time of retirement | |
| | = 3 x 30 x 25,000 (₹ 20,000 + ₹ 5,000) | = ₹ 22,50,000 |
| (iv) | B = M i.e., Balance months service left x S
i.e., salary at the time of retirement | |
| | = 72 (6 x 12 months) x ₹ 25,000 (₹ 20,000 + ₹ 5,000) | = ₹ 18,00,000 |

Hence, deduction of ₹ 5,00,000 shall be allowed under section 19(1).



1.4 DEDUCTIONS FROM SALARY [SECTION 19]

As per section 19(1), income chargeable under the head "Salaries" shall be computed after making the deductions listed thereunder. These include deductions in respect of professional tax, standard deduction under both tax regimes, deductions in respect of various payments such as pension, gratuity, leave salary, retrenchment compensation, and voluntary retirement compensation.

While deduction in respect of gratuity, leave salary, pension, retrenchment compensation and voluntary retirement compensation has been discussed in detail while discussing about the incomes from salary under section 16 and profits in lieu of salary under section 18, the remaining deductions are discussed hereunder:

Professional tax on employment

Sl. No.	Nature of sum	Amount of deduction
1.	Professional tax or taxes on employment levied by a State under Article 276 of the Constitution paid by the employee during the tax year.	Entire amount actually paid by the employee is allowed as deduction.



- ♦ The total amount by way of professional tax payable in respect of any one person shall not exceed ₹ 2,500 per annum.

However, the amount paid during the tax year can be more than ₹ 2,500 as the employee may have paid the professional tax of an earlier year during the tax year.

- ♦ If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction u/s 19(1).
- ♦ Deduction in respect of professional tax would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime. The deduction would not be available under the default tax regime i.e., under section 202(1).

Standard Deduction

Sl. No.	Nature of sum	Amount of deduction
2.	Standard Deduction	(a) ₹ 75000 or the salary, whichever is less, under default tax regime u/s 202(1). (b) ₹ 50000 or the salary, whichever is less, under optional tax regime.

ILLUSTRATION 24

Mr. Goyal receives the following emoluments during the tax year ending 31.03.2027.

<i>Basic pay</i>	₹ 4,00,000
<i>Dearness Allowance</i>	₹ 1,50,000
<i>Commission</i>	₹ 1,00,000
<i>Entertainment allowance</i>	₹ 40,000
<i>Medical expenses reimbursed</i>	₹ 25,000
<i>Professional tax paid</i>	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for tax year 2026-27, if Mr. Goyal is a State Government employee.

SOLUTION

**Computation of salary of Mr. Goyal for the tax year 2026-27
under default tax regime under section 202(1)**

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 19(1)	
Standard deduction of upto ₹ 75,000	75,000
Income from Salary	6,41,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 123. However, such deduction shall not be available under the default tax regime under section 202(1).

Computation of salary of Mr. Goyal for the tax year 2026-27 under the optional tax regime (normal provisions of the Act)

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
<i>Less: Deductions under section 19(1)</i>	
Table SI No. 1- Professional Tax paid	2,000
Table SI No. 2 - Standard deduction of upto ₹ 50,000	50,000
Income from Salary	6,64,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 123.



1.5 RELIEF UNDER SECTION 157

(1) Where the total income of an assessee is assessed at a rate higher than the rate at which it would otherwise have been assessed, due to the following receipts -

- (a) arrears of salary or advance salary; or
- (b) salary for more than twelve months in any one tax year; or
- (c) Profits in lieu of salary under section 18(1); or
- (d) Arrears of family pension

the Assessing Officer shall on an application made to him by the assessee in this behalf, grant such relief, as may be prescribed.

Family pension” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death.

- (2) No relief shall be granted on any income on which deduction has been claimed by the assessee in respect of compensation on voluntary retirement or termination of service referred under section 19(1)(Table: Sl. No. 12) for any amount mentioned therein, for current tax year or any other tax year.

Procedure for Computation of relief u/s 157
read with Rule 73 (Table Sl. No. 1)

Sl No.	Receipts	Relief
1.	Portion of salary received in arrears or in advance or family pension received in arrears, i.e., additional salary or additional family pension	Relief = A-B, If A > B, where A = C-D B = Aggregate of E E = F-G Step 1: Calculate A = C-D A = tax on additional salary or additional family pension for the relevant tax year C = tax on total income of the relevant tax year D = tax on total income as reduced by additional salary or additional family pension, as if such total income were the total income of the relevant tax year Step 2: Calculate E = F - G E = tax on the additional salary or additional family pension for each tax year ascertained in Step-1. F = tax payable on total income of such tax year as increased by amount relating to such tax year as if the total income so increased were the total income of that tax year G = tax payable on total income of each tax year Step 3 B = Aggregate of E i.e., aggregate of tax on additional salary or additional family pension for all tax years.

ILLUSTRATION 25

In the case of Mr. Hari, who turned 68 years on 28.3.2027, you are informed that the salary (computed) for the tax year 2026-27 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Tax year	Taxable Salary (₹)	Arrears now received (₹)	Tax paid without arrear (₹)	Tax liability including arrear (₹)
2017 – 2018	7,10,000	1,03,000	69,010	90,228
2018 – 2019	8,25,000	1,17,000	77,250	1,01,532
2019 – 2020	9,50,000	1,25,000	1,04,000	1,37,800

Compute the relief available under section 157 and the tax payable for the tax year 2026-27. Assume that Mr. Hari exercises the option under section 202(4) of shifting out of the default tax regime

SOLUTION**Computation of tax payable by Mr. Hari for the tax year 2026-27**

Particulars	Amount
Current year salary (computed)	10,20,000
Add: Arrears of salary	3,45,000
Taxable Salary	13,65,000
Income-tax thereon	2,19,500
Add: Health and education cess @4%	8,780
	2,28,280
Less: Relief u/s 157 [Refer Working Note Below]	28,520
Tax payable	1,99,760

Working Note –**Computation of Relief u/s 157**

Relief = A-B, If A>B

A = Tax on additional salary or additional family pension for the relevant tax year

$$\begin{aligned}
 B &= \text{Aggregate of E i.e., Aggregate of tax on additional salary or additional family pension for all tax years.} \\
 &= ₹ 1,07,640 (A) - ₹ 79,120 (B) \\
 &= ₹ \mathbf{28,520}
 \end{aligned}$$

Step 1 – Calculate A = C-D

A= tax on additional salary or additional family pension for the relevant tax year

C= tax on total income of the relevant tax year

D= tax on total income **as reduced** by additional salary or additional family pension, as if such total income were the total income of the relevant tax

Particulars	Tax on total income Incl. arrears of salary (C)	Tax on total income excl. arrears of salary (D)
Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: Health and education cess @4%	8,780	4,640
Total payable	2,28,280 (C)	1,20,640(D)
A = C-D		1,07,640

Step 2: Calculate E = F - G

E = tax on the additional salary or additional family pension **for each tax year** ascertained in Step-1.

F= tax payable on total income of such tax year as increased by amount relating to such tax year as if the total income so increased were the total income of that tax year

G= tax payable on total income of each tax year

Computation of Aggregate Tax on additional salary or additional family pension for all tax years

Tax year	Tax paid without arrear (₹) (F)	Tax liability including arrear (₹) (G)	Tax on Additional Salary (E) = (G) – (F)
2017 – 2018	69,010	90,228	21,218
2018 – 2019	77,250	1,01,352	24,102
2019 – 2020	1,04,000	1,37,800	33,800
Step 3: B = Aggregate of E i.e., [21,218 + 24,102 + 33,800]			79,120



13	Mr. Aditya, a State Government employee, paid professional tax of ₹ 3,200 during the tax year, out of which ₹ 1,000 related to earlier years. The amount deductible under section 19(1), assuming he has opted out of the default tax regime, would be –
(a)	₹ 2,500
(b)	₹ 2,200
(c)	₹ 3,200
(d)	₹ 1,000
14.	Ms. Rhea Kapoor has salary income of ₹ 48,000 during the tax year and is taxable under the default tax regime under section 202(1). The amount of standard deduction available to her would be –
(a)	₹ 75,000
(b)	₹ 50,000
(c)	₹ 48,000
(d)	(d) Nil
15.	Relief under section 157 shall not be available in respect of income for which deduction has already been claimed relating to –
(a)	Entertainment allowance
(b)	Voluntary retirement compensation
(c)	Standard deduction
(d)	Professional tax



LET US RECAPITULATE

Basis of Charge [Section 15]

- | | |
|-------|---|
| (i) | Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier. |
| (ii) | However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due. |
| (iii) | If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid. |

If an employee works with more than one employer, salaries received from all the employers would be clubbed and brought to charge for the relevant tax year.

Meaning of Salary [Section 16]

Section 16 defines the term "Salary". It is an inclusive definition and includes monetary (e.g. basic salary, bonus, commission, allowances etc.) as well as non-monetary items (e.g. housing accommodation, medical facility, interest free loans etc.).

Allowances: Allowances are monetary payments made by the employer to the employees for meeting specific expenditure, whether personal or for the performance of duties. Certain allowances are fully taxable while some are fully exempt or exempt to a particular extent.

Taxability/Exemption of certain Allowances

Section	Allowance	Exemption
11 read with Schedule III (Table SI No. 11)	House Rent Allowance	Least of the following is exempt: (a) HRA actually received (b) Rent paid <i>less</i> 10% of salary (c) 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Pune, Ahmedabad and Bengaluru 40% of salary, if the accommodation is located in any other city.

		Note - Exemption would be available to an assessee only if he exercises the option under 202(4) of shifting out of the default tax regime.
11 read with Schedule III (Table SI No. 12 & 13)	Children education allowance	₹ 3,000 per month per child upto maximum of two children Note - Exemption would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.
	Transport allowance for an employee who is blind or deaf and dumb or orthopedically handicapped for commuting between the place of residence and the place of duty	₹ 15,000 per month + DA thereon for metro cities and ₹ 8,000 per month + DA thereon for other cities Note - Exemption in respect of transport allowance would be available to an assessee irrespective of the regime under which he pays tax.
	Hostel expenditure of employee's children	₹ 9,000 per month per child up to a maximum of two children Note - Exemption would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.

Valuation of Perquisites [Section 17]

Rent-free residential accommodation/ Accommodation provided to an employee at concessional rate [Section 17(1)]

S. No. (A)	Category of Employee (B)	Unfurnished accommodation (C)	Furnished accommodation (D)
1	Government employee	License fee determined as per Government rules as reduced by the rent actually paid by the employee.	Value determined under column (C) Add: 10% p.a. of the furniture cost. However, if the furniture is hired, then hire charges payable/paid

			should be added to the value determined under column (C), as reduced by charges recovered from employee.								
2	Non-government employee	<u>Where accommodation is owned by employer</u> <table><tr><th>Location</th><th>Perquisite value</th></tr><tr><td>In cities having a population > 40 lakhs as per 2011 census</td><td>10% of salary</td></tr><tr><td>In cities having a population > 15 lakhs ≤ 40 lakhs as per 2011 census</td><td>7.5% of salary</td></tr><tr><td>In other areas</td><td>5% of salary</td></tr></table> The perquisite value should be arrived at by reducing the rent, if any, actually paid by the employee, from the above value. <u>Where the accommodation is taken on lease or rent by employer</u> Lower of the following is taxable: (a) actual amount of lease rent paid or payable by employer or (b) 10% of salary The lower of the above should be reduced by the rent, actually paid by the employee, to arrive at the perquisite value.	Location	Perquisite value	In cities having a population > 40 lakhs as per 2011 census	10% of salary	In cities having a population > 15 lakhs ≤ 40 lakhs as per 2011 census	7.5% of salary	In other areas	5% of salary	Value determined under column (C) Add: 10% p.a. of the furniture cost. However, if the furniture is hired, then hire charges payable/paid should be added to the value determined under column (C), as reduced by charges recovered from employee. Value determined under column (C) Add: 10% p.a. of the furniture cost. However, if the furniture is hired, then hire charges payable/paid should be added to the value determined under column (C), as reduced by charges recovered from employee.
Location	Perquisite value										
In cities having a population > 40 lakhs as per 2011 census	10% of salary										
In cities having a population > 15 lakhs ≤ 40 lakhs as per 2011 census	7.5% of salary										
In other areas	5% of salary										

Other Benefits or Amenities			
S. No.	Perquisite	Value of Perquisite	Key Conditions / Exemptions
1	Interest-free / Concessional Loan	SBI lending rate on maximum outstanding monthly balance minus interest paid	No perquisite if loan $\leq$ ₹ 2,00,000 or for specified medical treatment (subject to conditions)
2	Travelling, Touring & Accommodation other than leave travel concession	Actual expenditure incurred by employer	(i) Facility for selected employees: If such facilities are not uniformly available, the value is taken as the market value charged by external agencies. (ii) Family accompanying on official tour: Expenses incurred for family members are treated as a taxable perquisite. (iii) Tour extended as vacation: Only the additional expenses of the vacation period are taxable, The above value shall be reduced by the amount recovered from the employee.
3	Free Food & Beverages	Employer's cost minus employee contribution	Meals during working hours: Not taxable if provided at office or through non-transferable meal vouchers, up to ₹200 per meal. Tea or snacks: Not treated as a perquisite when provided during working hours. Remote area/offshore: Free food and beverages provided in remote areas or offshore installations are fully exempt.

4	Gifts / Vouchers	Value of gift	Exempt up to ₹ 15,000 per year
5	Credit Card Expenses	Expenses paid/reimbursed minus employee contribution	Not taxable if wholly for official purpose and proper records are maintained
6	Club Expenditure	Actual expenditure reimbursed	Corporate membership: Initial membership fee paid by employer is not treated as a perquisite. Official purpose expenses: Not taxable if expenses are wholly for business purposes, if proper records are maintained Uniform facilities: Use of health club/sports facilities provided uniformly to all employees is not a perquisite.
7	Use of Movable Assets	10% p.a. of cost or actual rent paid minus the amount recovered from the employee	No perquisite for laptops, computers, mobiles
8	Transfer of Movable Assets	Actual cost to employer (–) Depreciation (normal wear & tear) (–) Amount paid by employee (if any)	Depreciation rates (for each completed year of use): • Computers & electronic items: 50% (WDV) • Motor cars: 20% (WDV) • Other assets: 10% (SLM)
9	Other Benefits / Amenities	Cost to employer (at arm's length) minus employee contribution	No perquisite for telephone/mobile expenses

Motor Car

S. No.	Car owned/ hired by	Expenses met by	Wholly official use	Partly personal use (c)	
1	Employer	Employer	Not a perquisite*		
				cc of engine	Perquisite value
				upto 1.6 litres or Electric Vehicle	₹ 5,000 p.m.
				above 1.6 litres	₹ 7,000 p.m.
				If chauffeur is also provided, ₹ 3,000 p.m. should be added to the above value.	
2	Employee	Employer	Not a perquisite*	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.	
3	Employer	Employee	-		
				cc of engine	Perquisite value
				upto 1.6 litres or electric vehicle	₹ 2,000 p.m.
				above 1.6 litres	₹ 3,000 p.m.
				If chauffeur is also provided, ₹ 3,000 p.m. should be added to the above value.	
* Provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure was incurred wholly for official use. Note: Where car is owned by employer and expenses are also met by the employer, the taxable perquisites in case such car is used wholly for personal purposes of the employee would be equal to the actual expenditure incurred by the employer on running and maintenance expenses including remuneration of chauffeur and normal wear and tear (calculated @10% p.a. of actual cost of motor car) less amount charged from the employee for such use.					
Leave Travel Concession [Schedule III (Table SI No. 8)]					
Exemption is available for 2 trips in a block of 4 calendar years. Exemption would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.					

S. No.	Journey performed by	Exemption
1	Air	Amount not exceeding the fare admissible for the class of travel to which the employee is entitled by the shortest route.
2	Any other mode : (i) Where rail service is available (ii) Where rail service is not available a) and public transport does not exist, and no specific rates prescribed by Directorate of transport b) but public transport exists.	Amount not exceeding air-conditioned first-class rail fare by the shortest route to the place of destination Amount calculated at the rate of ₹ 30 per Km for the distance of journey by the shortest route shall be admissible Amount not exceeding the first class or deluxe class fare by the shortest route to the place of destination

Provident Funds - Exemption & Taxability provisions				
Particulars	Recognized PF	Unrecognized PF	Statutory PF	Public PF
Employer's Contribution	Nil, except as specified in section 17(1)(h)	Not taxable at the time of contribution	Fully exempt	N.A. (as there is only assessee's own contribution)
Employee's Contribution	Eligible for deduction u/s 123, where an employee exercises the option under section 202(4) of shifting out of the default tax regime	Not eligible for deduction	Eligible for deduction u/s 123, where an employee exercises the option under section 202(4) of shifting out of the default tax regime	Eligible for deduction u/s 123, where an employee exercises the option under section 202(4) of shifting out of the default tax regime
Interest Credited on Employer's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 16	Not taxable at the time of credit of interest	Fully exempt	N.A.

Interest Credited on Employee's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 16(i) [Refer detailed discussion for taxability of interest towards contribution above threshold limit]	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution [Refer detailed discussion for taxability of interest towards contribution above threshold limit]	Fully exempt
Amount withdrawn on retirement/ termination	Exempt under Schedule II (Table SI No. 4) from tax subject to certain conditions detailed in the note below.	Employer's contribution and interest thereon is taxable as salary. Employee's contribution is not taxable. Interest on employee's contribution is taxable under income from other source.	Fully exempt under schedule II (Table SI No. 3) subject to the taxability of interest on employee's contribution in excess of specified threshold limit of ₹ 2,50,000/ ₹ 5,00,000.	Fully exempt under schedule II (Table SI No. 3)

Note - The following are the conditions -

- (i) employee served a continuous period of 5 years or more; or
- (ii) retires before rendering 5 years of service because of ill health, contraction or discontinuance of employer's business or reason beyond the control of the employee; or
- (iii) on cessation of employment, the employee obtains employment with any other employer, to the extent the accumulated balance in RPF is transferred to his RPF account maintained by the new employer.
- (iv) The entire balance standing to the credit of the employee is transferred to his NPS account referred to in section 124 and notified by the Central Government

Further, the same would be exempted subject to the taxability of interest on employee's contribution in excess of specified threshold limit of ₹ 2,50,000/ ₹ 5,00,000 in a tax year.

Deductions from gross salary [Section 19(1)]

(1)	Professional tax [Table SI No. 1] Any sum paid by the assessee on account of tax on employment is allowable as deduction.
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	In case professional tax is paid by employer on behalf of employee, the amount paid shall be included in gross salary as a perquisite and then deduction can be claimed. Note - Deduction would be available to an assessee only if he exercises the option under section 202(4) of shifting out of the default tax regime.		
(2)	Standard deduction [Table SI No. 2] upto ₹ 75,000 under default tax regime u/s 202(1). upto ₹ 50,000 under normal provisions of the Act.		
(3)	Gratuity [Table SI No. 3,4,5 & 6]		
	Category of employee	Deduction	
	Central Government employees/ Members of Civil Services/ local authority employees etc.	Fully deductible	
	Other employees	Least of the following is deductible:	
		(i)	Gratuity actually received
		<u>In case of employees covered by the Payment of Gratuity Act, 1972</u>	
		(ii)	15/26 x last drawn salary x number of completed years or part in excess of six months
		(iii)	₹ 20,00,000
		<u>In case of employees not covered by the Payment of Gratuity Act, 1972</u>	
(ii)		1/2 x average salary of last 10 months x number of completed years of service (fraction to be ignored).	
(iii)	₹ 20,00,000		
(4)	Pension [Table SI No. 7, 8 & 9]		
	Uncommuted pension	Government & Non-Government employees	No deduction
	Commuted pension	Employees of Central Government/ local authorities/ Statutory corporation/ members of Civil	Fully deductible

		services/ All-India services/ Defence Services	
		Other Employees	<u>If the employee is in receipt of gratuity</u> $1/3 \times (\text{commuted pension received} \div \text{commutation \%}) \times 100$ <u>If the employee is not in receipt of gratuity</u> $1/2 \times (\text{commuted pension received} \div \text{commutation \%}) \times 100$
(5)	Retrenchment Compensation [Table SI No. 10 & 11]		
	Least of the following is deductible: (i) Compensation actually received (ii) ₹ 5,00,000 (iii) 15 days average pay × Completed years of service and part thereof in excess of 6 months		
(6)	Voluntary Retirement Compensation [Table SI No. 12]		
	Central and State Government, Public sector company, any other company, local authority, co-operative society, IIT etc.	Least of the following is deductible:	
		(i)	Compensation actually received
		(ii)	₹ 5,00,000
		(iii)	A = 3 x N x S N = Number of completed years of service S = Salary at the time of retirement
		(iv)	B = M x S M = Balance months of service left before the date of his retirement on superannuation S = Salary at the time of retirement
(7)	Leave Salary [Table SI No. 13 & 14]		
	Received during service	Government & Non-Government	No deduction
		Government	Fully deductible

	Received at the time of retirement, (whether on superannuation or otherwise)	Non-Government	Least of the following is deductible : (i) ₹ 25,00,000 (ii) Leave salary actually received (iii) Cash equivalent of leave salary in respect of the period of earned leave at the credit of the employee (maximum 30 days for every year of service) (iv) 10 months' salary (based on average monthly salary for the 10 months immediately preceding retirement)
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Meaning of Salary

S. No.	Calculation of exemption of Allowance/Terminal benefit/Valuation of perquisite	Meaning of salary
1	Gratuity (in case of non-Government employees covered by the Payment of Gratuity Act, 1972)	Basic salary and dearness allowance.
2	a) Gratuity (in case of non-Government employee not covered by Payment of Gratuity Act, 1972) b) Leave Salary c) House Rent Allowance d) Recognized Provident Fund e) Voluntary Retirement Compensation	Basic salary and dearness allowance, if provided in terms of employment, and commission calculated as a fixed percentage of turnover.
3	Rent free accommodation and Accommodation provided to an employee at a concessional rate	All pay, allowance, bonus or commission or any monetary payment by whatever name called but excludes- (1) Dearness allowance not forming part of computation of superannuation or retirement benefit (2) Employer's contribution to the provident account of the employee; (3) allowances which are exempted from

	the payment of tax; (4) value of the perquisites specified in section 17(1); (5) any payment or expenditure specifically excluded under section 17(2) i.e., payment of medical insurance premium specified therein. (6) lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, leave encashment, voluntary retirement benefits, commutation of pension and similar payments.
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Relief when salary is paid in arrears or in advance [Section 157]

Particulars	Amount
Tax on the total income including arrears/advance salary received during a tax year	XXX
Less: Relief under section 157 [Refer Working Note Below]	XXX
Net Tax Liability	XXX

Working Note - Computation of Relief u/s 157

Relief = A-B, If A > B, where A = C-D; B = Aggregate of E; E = F-G

Step 1	Calculate A = C-D A = tax on additional salary or additional family pension for the relevant tax year C = tax on total income of the relevant tax year D = tax on total income as reduced by additional salary or additional family pension
Step 2	Calculate E = F - G E = tax on the additional salary or additional family pension for each tax year ascertained in Step-1. F = tax payable on total income of such tax year as increased by amount relating to such tax year G = tax payable on total income of each tax year
Step 3	B = Aggregate of E i.e., aggregate of tax on additional salary or additional family pension for all tax years.



TEST YOUR KNOWLEDGE

- Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2027. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2027. Rent paid by him during the tax year 2026-27 is as under:

April and May, 2026- Nil, as he stayed with his parents

June to October, 2026 - ₹ 6,000 p.m. for an accommodation in Ghaziabad

November, 2026 to March, 2027 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for tax year 2026-27, assuming he exercises the option under section 202(4) of shifting out of the default tax regime.

- Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the tax year 2026-27:

	Particulars	₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000

6	<i>Expenses in relation to foreign travel of Rakhi and her son for medical treatment</i> Note - Limit specified by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	1,20,000
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Examine the taxability of the above benefits and allowances in the hands of Rakhi.

3. *Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:*

- (i) *A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2026.*
- (ii) *A personal loan of ₹ 5,00,000 on 1.7.2026 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2026 was 12.75% p.a.)*
- (iii) *His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2023. The motor cycle was finally sold to him on 1.8.2026 for ₹ 30,000.*
- (iv) *Professional tax paid by Mr. X is ₹ 2,000.*

Compute the income from salary of Mr. X for the tax year 2026-27 assuming Mr. X exercises the option under section 202(4) of shifting out of the default tax regime.

4. *Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2027:*

- (i) *Basic salary upto 31.10.2026 ₹ 50,000 p.m.*
Basic salary from 01.11.2026 ₹ 60,000 p.m.

Note - *Salary is due and paid on the last day of every month.*

- (ii) *Dearness allowance @ 40% of basic salary.*
- (iii) *Bonus equal to one month salary. Paid in October 2026 on basic salary plus dearness allowance applicable for that month.*

- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2026.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2026 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2026 to 31.03.2027, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class to which the employee is entitled) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the tax year 2026-27 assuming he exercises the option under section 202(4) of shifting out of the default tax regime.

5. From the following details, find out the salary chargeable to tax for the tax year 2026-27 assuming he exercises the option under section 202(4) of shifting out of the default tax regime -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2026 in the basic pay scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

He is provided free housing facility which has been taken on rent by the company at ₹ 10,000 per month. He is also provided with following facilities:

- (i) Facility of laptop costing ₹ 50,000.
- (ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.

- (iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
 - (iv) A gift voucher of ₹ 20,000 on the occasion of his marriage anniversary.
 - (v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
 - (vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
 - (vii) He is getting telephone allowance @ ₹ 500 per month.
6. You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2027:
- (i) He retired on 31-12-2026 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
 - (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
 - (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
 - (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
 - (v) He is receiving ₹ 5,000 as pension. On 1.2.2027, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
 - (vi) The company presented him with a gift voucher of ₹ 14,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.
7. Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2026-27:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000

<i>Commission</i>	<i>75,000</i>
<i>Entertainment allowance</i>	<i>9,000</i>
<i>Medical expenses reimbursed by the employer</i>	<i>18,000</i>
<i>Profession tax (of this, 50% paid by employer)</i>	<i>4,000</i>
<i>Health insurance premium paid by employer</i>	<i>8,000</i>
<i>Life insurance premium of Akansha paid by employer</i>	<i>26,000</i>
<i>Laptop provided for use at home. Actual cost of Laptop to employer</i>	<i>45,000</i>
<i>Children of the assessee are also using the Laptop at home]</i>	
<i>Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer</i>	
<i>Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]</i>	<i>7,000</i>

You are required to compute the income chargeable under the head Salaries for the tax year 2026-27 if she pays tax under default tax regime.

8. *Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2025 in the scale of ₹ 60,000 - ₹ 1,000 - ₹ 70,000. He furnishes the following information for the tax year 2026-27:*
- (i) Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)*
 - (ii) Bonus equal to one month's salary. Paid in November 2026 on basic salary applicable for that month.*
 - (iii) Leave encashment for tax year 2026-27 of ₹ 10,000.*
 - (iv) He also received a motor car on 01.12.2026 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.*
 - (v) His employer granted him a loan of ₹ 2,00,000 on 1st June, 2026 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2026. The State Bank of India (SBI) lending rate for such loans*

is 9.5% per annum as on 01.04.2026, while the employer recovers interest @5.5% per annum from the employee.

- (vi) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2026. This house is owned by the employer.
- (vii) The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2025. Electricity and water bills of ₹ 5,000 p.m. for the said house were paid by the employer.
- (viii) His colleagues gifted him a mobile phone worth ₹ 45,000 from their own contribution on account of his marriage.

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the tax Year 2026-27 assuming that he wants to pay tax under default tax regime under section 202(1).

ANSWERS

1. Computation of gross salary of Mr. Mohit for tax year 2026-27

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (See Note below)	21,300
Gross Salary	2,65,300

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500

Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [Sch III, Table SI No. 11]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2026)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
50% of salary (Residence at Delhi– Nov, 26 - March, 27)					
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300

2. Tax treatment of medical benefits, allowances and Mediclaim premium in the hands of Ms. Rakhi for tax year 2026-27

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi (A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite under section 17(2)(c).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per section 17(2)(b), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.
5. & 6.	As per section 17(2)(f), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [₹ 1,05,000, in this case]; (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case]. The conditions subject to which the above expenditure would be exempt are as follows – (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;

- (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed the amount as may be prescribed (i.e., ₹8,00,000 as per Rule 19)

Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 8,00,000.

3. Computation of Income from Salary of Mr. X for the tax year 2026-27

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add: Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motorcycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motorcycle [Note 3]		12,000
Gross Salary		4,08,900
Less : Deduction under section 19(1)		
Standard deduction	50,000	
Professional tax paid	2,000	52,000
Taxable Salary		3,56,900

Notes:

1. Value of rent-free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400

2. Value of perquisite for interest on personal loan

$$= [₹ 5,00,000 \times (12.75\% - 6.75\%) \text{ for 9 months}] = ₹ 22,500$$

3. Depreciated value of the motor cycle

= Original cost – Depreciation @ 10% p.a. for 3 completed years.

$$= ₹ 60,000 - (₹ 60,000 \times 10\% \text{ p.a.} \times 3 \text{ years}) = ₹ 42,000.$$

$$\text{Perquisite} = ₹ 42,000 - ₹ 30,000 = ₹ 12,000.$$

4. Computation of Taxable Salary of Mr. Balaji for tax year 2026-27

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)	70,000
Employer's contribution to recognised provident fund (See Note 2)	Nil
Professional tax paid by employer	2,000
Perquisite of Motor Car (See Note 4)	35,000
Gross Salary	10,17,000
Less: Deduction under section 19(1)	
Standard deduction	50,000
Professional tax (See Note 6)	2,500
Taxable Salary	9,64,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. Employer's contribution does not exceed ₹ 7,50,000 for the tax year, hence nothing shall be taxable.
3. As per Rule 15(7), facility of use of laptop and computer is a tax-free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 15(3), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to

the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 7,000 per month. The car was provided to the employee from 01.11.2026, therefore the perquisite value has been calculated for 5 months.

5. Mr. Balaji can avail exemption under Schedule III (Table SI No. 8) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare to which he is entitled. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

He is eligible to claim benefit of exemption under Schedule III (Table SI No. 8) since he has exercised the option under section 202(4) of shifting out of the default tax regime.

6. As per section 17(1)(f), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 19(1) (Table SI No. 1), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

5. **Computation of taxable salary of Mr. X for tax year 2026-27**

Particulars	₹
Basic pay [(₹ 20,000×9) + (₹ 21,000×3)] = ₹ 1,80,000 + ₹ 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000

Employer's contribution to Recognized Provident Fund (not taxable, since the amount does not exceed ₹ 7,50,000)	Nil
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note (i) below]	29,430
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note (iv) below]	20,000
Gross Salary	3,80,730
Less: Deduction under section 19(1) – Standard deduction	50,000
Salary income chargeable to tax	3,30,730

Notes:

- (i) Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- (i) Basic salary i.e., ₹ 2,43,000
- (ii) Dearness allowance i.e. ₹ 24,300
- (iii) Bonus i.e., ₹ 21,000
- (iv) Telephone allowance i.e., ₹ 6,000

Therefore, salary works out to

$$₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.$$

$$10\% \text{ of salary} = ₹ 2,94,300 \times 10/100 = ₹ 29,430$$

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430).

Therefore, the perquisite value is ₹ 44,145.

- (ii) Facility of use of laptop is not a taxable perquisite.

- (iii) Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 15,000 in aggregate during the tax year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is ₹ 15,000 or more. Therefore, the entire amount of ₹ 20,000 is liable to tax as perquisite.
- (v) Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

6.

Computation of income under the head "Salaries"
of Mr. Raja for the tax year 2026-27 under default tax regime

Particulars	₹
Basic Salary = ₹ 25,000 x 9 months	2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]	54,000
Gratuity	3,50,000
Uncommuted Pension received [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)	9,000
Commuted Pension	3,00,000
Leave encashment	3,15,000
Gift Voucher [the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 15,000 in aggregate during the tax year is exempt]	Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 92(2)(m) are not attracted in respect of mobile phone as it is not included in the definition of "property" thereunder)	Nil
Gross Salary	12,53,000
Less: Deduction under section 19(1)	75,000
- Standard deduction [Actual salary or ₹ 75,000, whichever is less]	

-	Gratuity – Deduction would be least of the following:	3,50,000	
	(i) Actual gratuity received ₹ 3,50,000		
	(ii) 15 days salary for every year of completed service $[15/26 \times 25,000 \times 26] = ₹ 3,75,000$		
	(iii) Notified Limit ₹ 20,00,000		
-	Commuted pension: $1/3 \times (3,00,000 / 60\% \times 100\%)$	1,66,667	
-	Leave salary – Deduction would be least of the following:	2,50,000	
	(i) ₹ 25,00,000		
	(ii) Leave salary actually received ₹ 3,15,000		
	(iii) $A = 10 \times B, = ₹ 2,50,000;$ $B = ₹ 25,000$ (being avg salary of last 10 months)		
	(iv) Cash equivalent of leave salary in respect of period of earned leave at his credit (not exceeding 30 days) = $3,15,000 \times 375/375 = ₹ 3,15,000$ [Leave Due = Leave allowed – Leave taken] [750 days – 375 days = 375 days]		
			8,41,667
	Taxable Salary		4,11,333

7. **Computation of income chargeable under the head “Salaries” of Ms. Akansha for tax year 2026-27 under default tax regime**

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000

Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [section 17(2)(d)]	Nil
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(1)(g)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 15(7)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 1,20,000 [$₹ (7000 + 3000) \times 12$] as per Rule 15(3)	1,20,000
Annual credit card fees paid by employer is a taxable perquisite as per Rule 15(5) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,97,000
Less: Deductions under section 19(1)	
- Standard Deduction	75,000
- Professional tax [Deduction not allowed under default tax regime]	Nil
Income chargeable under the head "Salaries"	12,22,000

8. **Computation of income chargeable under the head "Salaries" of Mr. Kunal for tax year 2026-27 under default tax regime**

Particulars	₹	₹
Basic Pay [$₹ 61,000 \times 10 + ₹ 62,000 \times 2$]		7,34,000
Dearness Allowance [$₹ 7,34,000 \times 25\%$]		1,83,500
Bonus		61,000
Leave encashment for tax year 2026-27		10,000

Value of perquisite		
Perquisite of Motor Car [₹ 10,000 x 4]		40,000
As per the provisions of Rule 15(3), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹ 10,000 (₹ 7,000 + ₹ 3,000). The car was provided to employee from 01.12.2026, therefore the perquisite value has been calculated for 4 months.		
Perquisite of interest on loan (Working Note Below)		5,917
Value of Rent-free accommodation		
Value of Rent-free accommodation {10% of ₹ 9,15,100 i.e., [₹ 7,34,000, basic salary + ₹ 1,10,100 (₹ 1,83,500 x 60%, DA forming part of retirement benefit) + ₹ 10,000, leave encashment + ₹ 61,000, bonus]}	91,510	
Add: Value of furniture [₹ 1,50,000 x 10% p.a.]	15,000	
	1,06,510	1,06,510
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [₹ 5,000 x 12]		60,000
Mobile phone received as gift from colleagues. (Not taxable under the head "Salaries")		Nil
Gross Salary		12,00,927
Less: Standard deduction under section 19(1) [Actual salary or ₹ 75,000, whichever is less]		75,000
Taxable Salary		11,25,927

Working Note:**Perquisite of Interest on Loan**

The value of the benefit with respect to concessional loan made to the employee by the employer shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant tax year. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $9.5\% - 5.5\% = 4\%$ p.a.

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
June, 2026	2,00,000	667
July, 2026	2,00,000	667
August, 2026	2,00,000	667
September, 2026	2,00,000	667
October, 2026	1,75,000	583
November, 2026	1,75,000	583
December, 2026	1,75,000	583
January, 2027	1,50,000	500
February, 2027	1,50,000	500
March, 2027	1,50,000	500
Taxable Value of perquisite		5,917



Q.NO.	ANSWERS	
1.	(c)	Income from Other Sources
2.	(b)	Exempt under Schedule IV
3.	(c)	Fully taxable
4.	(c)	₹15,000 p.m. plus DA thereon
5.	(b)	Any member of the family as defined
6.	(b)	Exempt to the extent computed as deduction under gratuity provisions
7.	(c)	₹ 5,00,000
8.	(c)	Income from Other Sources
9.	(b)	₹ 50,000
10.	(a)	Nil
11.	(c)	Nil
12.	(b)	Only in the case of specified employees
13.	(c)	₹ 3,200
14.	(a)	₹ 75,000
15.	(b)	Voluntary retirement compensation